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**Leveraging ASEAN Membership for  
Timor-Leste's Development:  
Issues and Recommendations<sup>#</sup>****Rui Augusto GOMES<sup>§</sup>***Minister of Finance of the 8th Constitutional Government of  
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**Abstract:** *To offer policy recommendations regarding the prospective accession of Timor-Leste into the Association of Southeast Asian Nations (ASEAN), this study examines the development gaps between Timor-Leste and ASEAN member countries across various dimensions. The analysis utilises statistical aggregates derived from official reports, with a particular focus on well-being indicators. While Timor-Leste has made substantial progress over the past 2 decades – transitioning from post-conflict status to an open economy characterised by reduced corruption, democracy, a free press, relative stability, and sufficient liquidity – its economic and social policies have not consistently prioritised high and sustainable growth. Consequently, challenges such as overreliance on a single commodity, insufficient human development, a pronounced rural–urban divide, a lack of decent and productive job creation, limited domestic revenue diversification, weak food security, and an underdeveloped domestic private sector persist.*

*The research underscores the importance of modernising Timor-Leste's domestic institutions and enhancing their capacities to operate effectively in a larger, highly competitive, market-driven environment within the region and beyond. At the same time, it highlights the need to address the complex challenges that were also faced by some ASEAN Member States during their accession in the 1990s. Finally, the paper offers recommendations on how Timor-Leste can maximise the benefits of ASEAN integration.*

**Keywords:** Economic growth, Timor-Leste, ASEAN, development gaps, poverty

**JEL Classification:** O5, O2, F6

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## 1. Introduction

During the 2022 40th and 41st Association of Southeast Asian Nations (ASEAN) Summits and Related Summits, under the leadership of Cambodia, Timor-Leste was ‘admitted in principle’ as the 11th ASEAN Member State (AMS) and granted ‘observer status’. It was also allowed to participate formally in all ASEAN Meetings, including attending the Summit plenaries. Full accession to ASEAN could boost Timor-Leste’s economic growth and improve well-being by expanding its trade with ASEAN and beyond, and by encouraging expedited reforms for structural transformation and modernisation of the economy. Integration will facilitate the transfer of technology and exchange of experiences, attract private (foreign and domestic) investment, and generate employment opportunities, leading to robust growth rates and economic transformation in the long term. Joining ASEAN could also help discipline the Timorese public administration and enhance governance effectiveness, through improving transparency and making its investment regime more stable, attractive, and predictable, as well as orienting its value-added products to the largest market in the region and beyond.

Timor-Leste’s trade is highly dependent on ASEAN markets. During 2004–2022, the country spent US\$13.43 billion on imports of goods and services, of which 60.2% originated in ASEAN markets, mainly Indonesia, Singapore, Viet Nam, Malaysia, and Thailand. Between 2018 and 2022, one-fifth (US\$586.4 million or 20.3%) of the country’s total imports (US\$2.8 billion) comprised food products. On the other hand, its non-oil exports (mainly coffee) are directed at non-AMS, except for a limited volume to Indonesia and Malaysia (ADB, 2023b).<sup>1</sup> Timor-Leste’s relationship with AMS goes beyond trade: many Timorese patients have received treatment in hospitals and health clinics in ASEAN cities; every year, thousands of Timorese students study in ASEAN higher education institutions; and dozens of protocols have been signed between the governments of Timor-Leste and individual AMS. Discussions are taking place regarding the establishment of a free trade zone at the border between Timor-Leste and Indonesia, which would make Timor-Leste more attractive to foreign investment.<sup>2</sup>

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<sup>1</sup> The Timor-Leste National Accounts recorded a larger volume of trade during the same period, worth US\$17.12 billion, with more than 60% from ASEAN markets.

<sup>2</sup> The Asian Development Bank (ADB), Indonesia, and Timor-Leste signed a memorandum on 4 May 2019 to support cross-border trade and cooperation between Timor-Leste and Nusa Tenggara Timur Province in Indonesia. On 12 January 2022, the foreign ministers of Indonesia and Timor-Leste began discussions on a joint free trade zone agreement for the border industrial area between Oecusse and Nusa Tenggara Timur Province (Antara, 12 January 2022). This was reiterated during the official meeting between then Prime Minister Taur Matan Ruak and President Joko Widodo in Jakarta on 13 February 2023. During the meeting, a joint declaration was signed between the foreign ministers of the two countries on establishing economic zones in border areas, with the intent of establishing cross-border free trade zones. See also Magalhães (2022).

Investors from AMS have begun to construct hotels and restaurants, telecommunication facilities, and health clinics in Dili.<sup>3</sup>

Timor-Leste could also leverage benefits from the Regional Comprehensive Economic Partnership agreement made in 2022 between ASEAN and Australia, Japan, China, the Republic of Korea (henceforth, Korea), and New Zealand. Thus, ASEAN membership would also strengthen Timor-Leste's long-term relationship with Australia and New Zealand, as well as establishing closer ties with ASEAN's other partners. This would contribute immensely to a peaceful, secure, and stable Indo-Pacific region, which is one of the purposes of ASEAN. Also, ASEAN seeks 'to accelerate the economic growth, social progress, and cultural development in the region'; and 'to promote regional peace and stability' (ASEAN, 1967).

### **Box 1: Timor-Leste's Accession to ASEAN and the WTO**

In 2005, Timor-Leste joined the Association of Southeast Asian Nations (ASEAN) Regional Forum, which created major political and diplomatic momentum for Timor-Leste to be included in the ASEAN agenda. This indicated ASEAN's willingness to have a newly independent, small, and underdeveloped country participate in the process of becoming a member of the ASEAN bloc.

In 2011, Timor-Leste formally applied for ASEAN membership when Indonesia – Timor-Leste's greatest supporter of ASEAN accession – was chairing ASEAN.

Since 2014, Timor-Leste has opened embassies in all ASEAN capitals, attended ASEAN Ministerial Meetings (and Summits), participated as an observer at ASEAN Meetings, acceded to all ASEAN treaties and agreements, paid its contribution to the ASEAN Development Fund as a 'membership fee', and fulfilled other obligations. After Timor-Leste was admitted in principle, the ASEAN Coordinating Council was tasked with developing an objective criteria-based roadmap for Timor-Leste's full membership of ASEAN, for which Timor-Leste has taken the necessary steps. For example, Australia, through Foreign Minister Penny Wong, announced an additional US\$2 million to support Timor-Leste's accession to ASEAN and the World Trade Organization (WTO). During

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<sup>3</sup> According to the World Investment Report 2023 (UNCTAD, 2023), foreign direct investment (FDI) flows to Timor-Leste reached US\$262 million in 2022, after registering negative values in the previous 3 years. During the same period, the total stock of FDI reached US\$1.49 billion. Ongoing major constructions in the capital Dili include Pelican Paradise (the restaurant is near conclusion, and a 300-bedroom 5-star hotel, meeting facilities, and clinic will follow in the same complex); the 23-storey Timor Marina Square; the Indonesian Telkomsel and Vietnamese Telemor in telecommunications; and the Singaporean Stamford Medical Clinic.

24–28 June 2024, Australia hosted a training workshop in Dili titled Timor-Leste’s Accession and Integration to ASEAN Economic Community (AEC) – Trade and Investment Negotiations. The ASEAN Secretariat, with the support of the Asian Development Bank, conducted the third and fourth clusters of the Capacity Building Program for Timor-Leste’s accession to AEC agreements in Dili during 9–12 January 2024. Similar capacity building training took place during 18–20 July 2023 in Dili.

Having been an observer since 2016, on 11 January 2024, the WTO Members endorsed Timor-Leste’s WTO accession package, which paved the way to it joining the organisation on 26 February 2024 at the 13th WTO Ministerial Conference in Abu Dhabi, United Arab Emirates. The accession process took much less than 8 years to complete, considering the country’s least developed country status, which allows a lesser burden in terms of commitments and more flexible time to phase in policy reforms.

Source: Author.

Timor-Leste has harmonised its trade, services, investment policies, and regulatory frameworks towards smooth integration with the World Trade Organization (WTO) and ASEAN. From now on, Timor-Leste will have to adopt a more market-based orientation for its economy, which will involve reforming domestic trade policy, modernising its production, and creating more transparent rules to facilitate the country’s participation in international trade.

Fostering broad-based and inclusive growth in Timor-Leste is challenging. The challenges faced by Timor-Leste are not uncommon to fragile and conflict-affected situations and small island developing states – a small population and a narrow economic base, vulnerable to exogenous shocks, including volatility of global commodity prices, natural disasters and climate change, and political risk. In addition, its economic growth is largely dependent on public spending, whose main source of funding is the Petroleum Fund, which is expected to be depleted within a decade following the current expenditure trend (Government of Timor-Leste, 2023a: 41).

Although Timor-Leste is one of the most democratic countries in the region – stable, peaceful, and with a free press – its economy is neither diversified nor productive. Furthermore, it is marked by strong informality, which contributes to narrow domestic revenues. The low level of Timor-Leste’s development is mostly attributable to the cascading crises resulting from frequent political uncertainty, weak and volatile economic growth, limited human capital, and more recently, the twin shocks of the coronavirus disease (COVID-19) pandemic and climate

change. These compounding factors have put Timor-Leste behind in the race towards an inclusive, resilient, and sustainable economy, and far from converging with most of its peers in ASEAN.

Looking to the future, higher growth rates are necessary in production across economic sectors, including agriculture, industry, and services, with structural transformation. These non-oil sectors need to be developed in a way that significantly increases their value added and orients them to export markets in the region. Timor-Leste's high vulnerability to economic shocks reflects its small export and domestic revenue bases. In defining a strategy for Timor-Leste, it is essential to ensure that its implementation is sustainable, both from a financial perspective – which implies creating alternative sources of public revenue and being very selective in the choice of projects, to maximise the return per dollar spent – and from the point of view of dignifying the labour factor, through the creation of productive jobs. With more than 20% of the population aged 15–24, generating jobs for them becomes a priority.

The country faces many challenges, which may not dissipate soon, given its stage of development. Timor-Leste's situation today is comparable to those of Cambodia, the Lao People's Democratic Republic (Lao PDR), Myanmar, and Viet Nam (CLMV) when they joined ASEAN in the 1990s. After the accession of CLMV, ASEAN put in place the Initiative for ASEAN Integration (IAI), which aimed to support the newer Member States in fulfilling their ASEAN obligations and working towards narrowing the development gaps amongst AMS. In a similar vein, ASEAN could support Timor-Leste so that it can fully participate in ASEAN. On its road of becoming a member of the ASEAN bloc, the country can build partnerships and seek assistance to develop its domestic institutions and enhance capacities to be able to respond to the exigencies of becoming a full member of ASEAN.

This research project discusses the development issues faced by Timor-Leste by examining some of the statistical aggregates based on official reports, with specific focus on the dimensions of well-being. It is outside the scope of this project to expose all the dimensions of well-being given variations in the availability, reliability, consistency, and comparability of data. Rather, the exposition mirrors the Asian Development Bank (ADB) ASEAN Framework for Equitable Economic Development (AFEED) framework on narrowing the development gap (ADB, 2023c). Timor-Leste's situation as a post-conflict and fragile country may raise considerable apprehension amongst some AMS that its integration into the bloc may decelerate the implementation of the ASEAN Community Vision 2025 and the ASEAN Community blueprints, and slow down the realisation of the legally binding agreements and work plans. However, in several development areas, Timor-Leste has outperformed the three ASEAN least

developed countries (LDCs) and, in others, the country presents indicators similar to those of the developed AMS. The presentation of the country's situation may contribute to the design of a tailor-made IAI support package to help Timor-Leste narrow the development gaps and enhance its capacity to enjoy the new status and be relevant and effective as an equal member of ASEAN.

The study begins with an outline of the economy, highlighting issues critical to achieving long-term sustainable and inclusive growth upon which productive jobs, wealth, and improved well-being depend. This is followed by a description of the dimensions of well-being. Finally, a list of recommendations is provided on incorporating Timor-Leste into ASEAN's IAI support mechanism, towards maximising the benefits of full ASEAN membership for the country's long-term development.

## **2. Timor-Leste's Economy**

### **2.1. Economic growth**

During 2002–2022, Timor-Leste's economy grew at a rate of 4.40%, mostly from oil income (Figure 1). Without oil income, the real non-oil gross domestic product (GDP) grew at a much lower average of 2.5% annually. In 2022, Timor-Leste's total GDP (current prices) was US\$3.20 billion,<sup>4</sup> with per capita income of US\$2,391. Although this was higher than per capita incomes in Myanmar (US\$1,149), Cambodia (US\$1,760), and the Lao PDR (US\$2,054) (World Bank, n.d.-c), Timor-Leste's GDP per capita derives from oil (US\$1,143) and non-oil (US\$1,247) sources. The total GDP per capita annual rate during 2002–2022 was 2.52%, close to that of Thailand (2.72%) and Malaysia (2.66%); however, differences in the economic maturity and size of these countries matter. Without oil income, growth of total GDP per capita would be only 1.18% – three times below the ASEAN average (3.66%).<sup>5</sup>

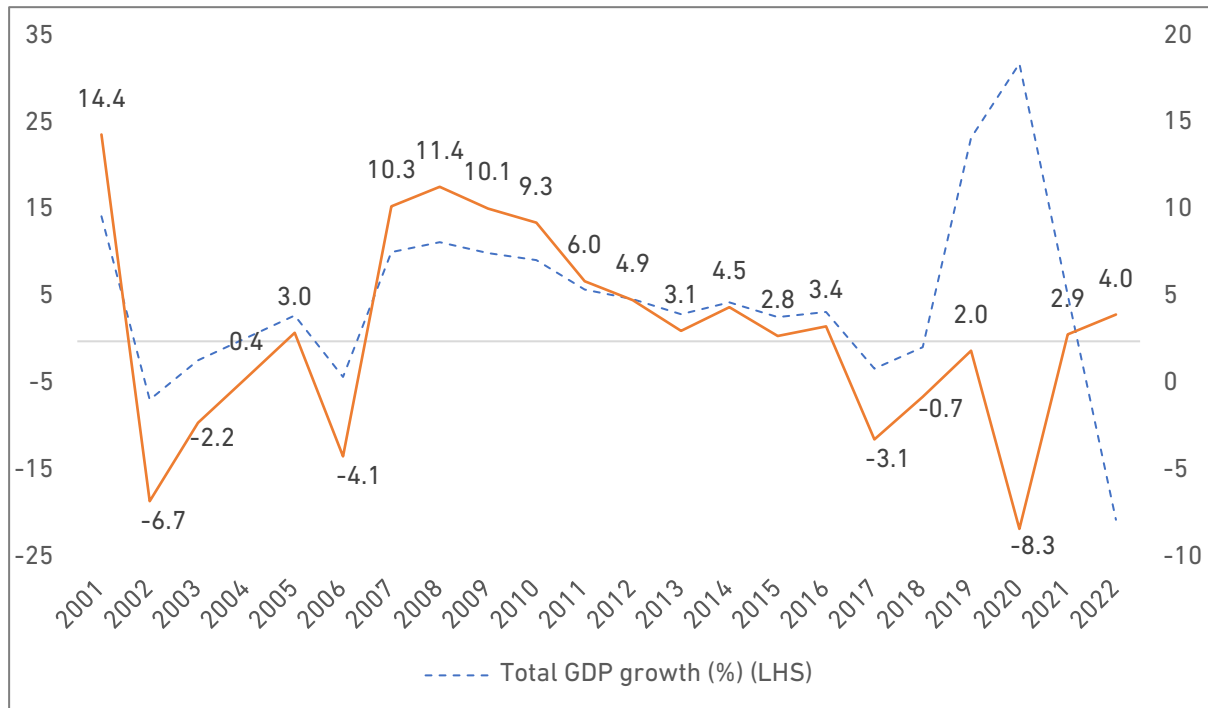
In 2020, the economy saw a sharp contraction due to a prolonged political impasse, compounded by the twin shocks of the COVID-19 pandemic and the impacts of climate change.

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<sup>4</sup> This compares with US\$15.81 billion in the Lao PDR, US\$28.90 billion in Cambodia, and US\$56.41 billion in Myanmar.

<sup>5</sup> The noticeable expansion of total GDP from 2019 is attributable to the inclusion of the oil sector as a resident industry, following the new Border Treaty, which entered into force in September 2019. Prior to the signing of the Border Treaty, oil was included in gross national income (GNI) as a royalty and not in GDP as value added.

**Figure 1: Growth of Timor-Leste's Total GDP and Non-Oil Sector, 2001–2022 (%)**



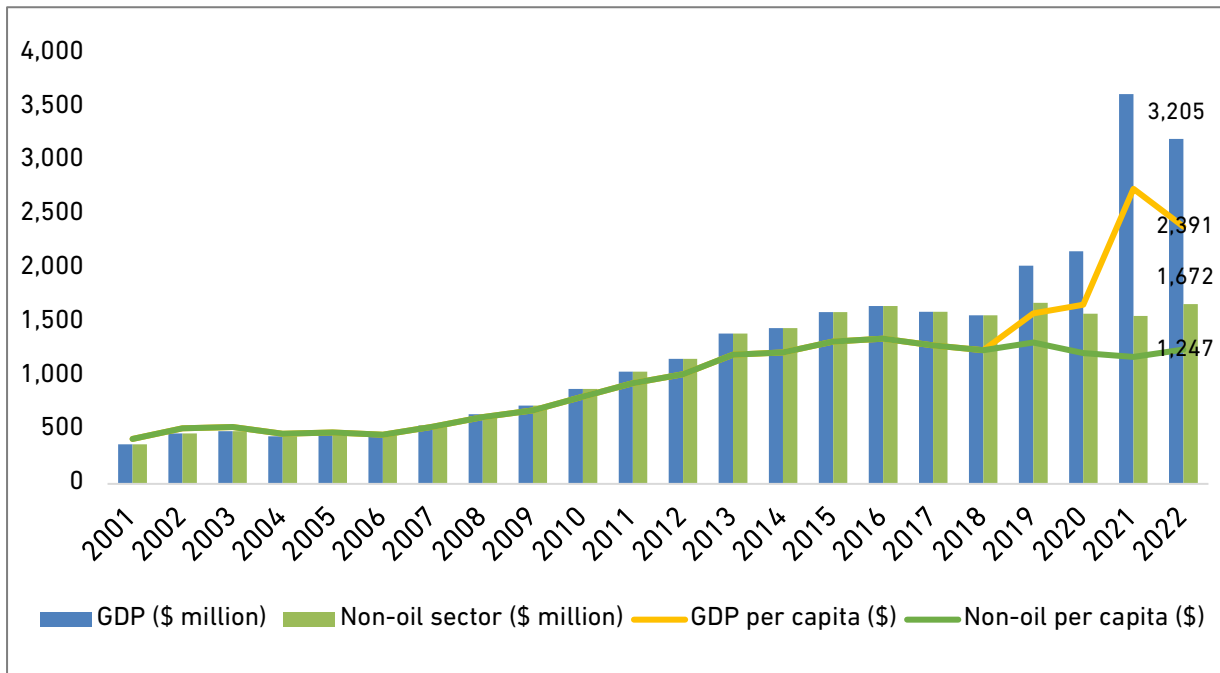
GDP = gross domestic product, LHS = left-hand side, RHS = right-hand side.  
 Source: Government of Timor-Leste (2023c).

Both total GDP and the non-oil sector continue to expand slowly (Figure 2), showing an upward trend, mainly due to high government spending, which relies on excess Petroleum Fund<sup>6</sup> withdrawals. Oil revenues continue to represent as much as 89% of Timor-Leste's total revenues, and about 90% of GDP is being supported by public investment, a scenario that is unsustainable. To date, domestic revenues constitute around 10% of GDP,<sup>7</sup> excluding oil. Tax policy, despite the introduction of tax cuts in mid-2008, was never aimed at raising revenues, and it has not supported the government's economic growth and social strategy.

<sup>6</sup> The Petroleum Fund has signed up to the Santiago Principles on best practices for managing sovereign wealth funds and joined the International Forum of Sovereign Wealth Funds. It was established and became operational in July 2005. The fund had US\$18.2 billion in assets under management in December 2023 and has served as a fiscal buffer to enhance confidence.

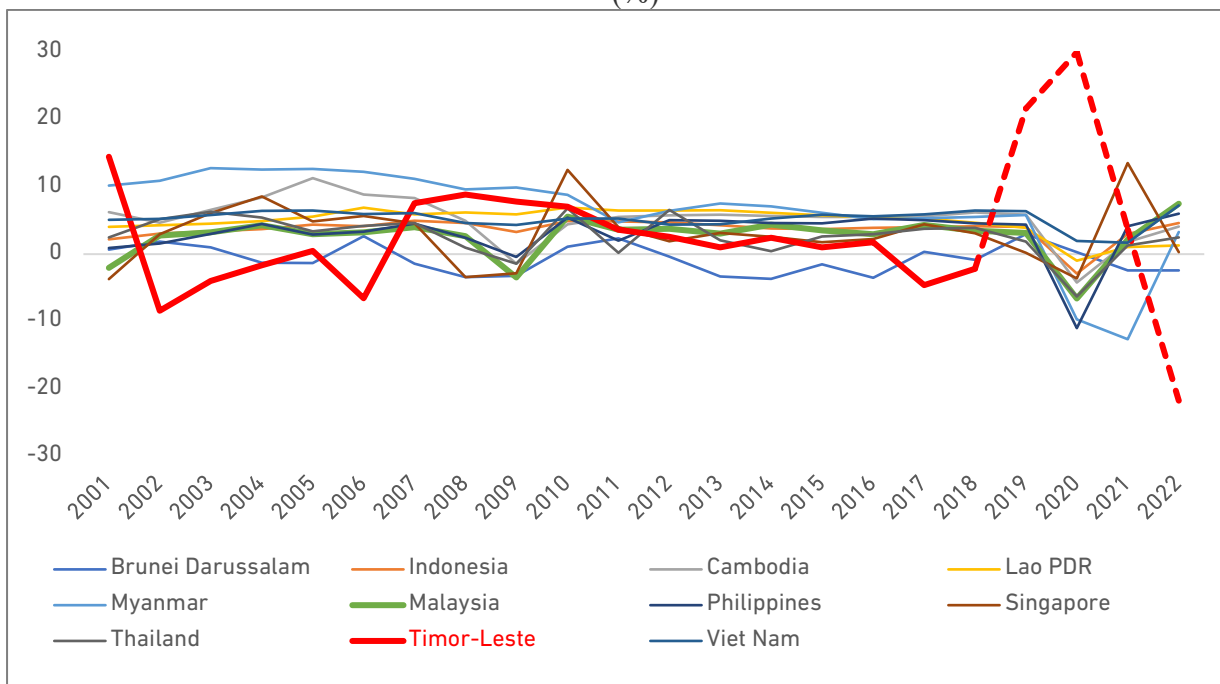
<sup>7</sup> Between 2018 and 2022, average domestic revenues as a percentage of GDP were 10.9%, compared with 4.9% during 2007–2017. See International Monetary Fund (IMF) Article IV Consultation reports (various years).

**Figure 2: Total and per Capita GDP of Timor-Leste, 2001–2022**  
(current prices)



GDP = gross domestic product.  
Source: Government of Timor-Leste (2023c).

**Figure 3: Growth of Total GDP per Capita of Timor-Leste and ASEAN Member States, 2001–2022**  
(%)

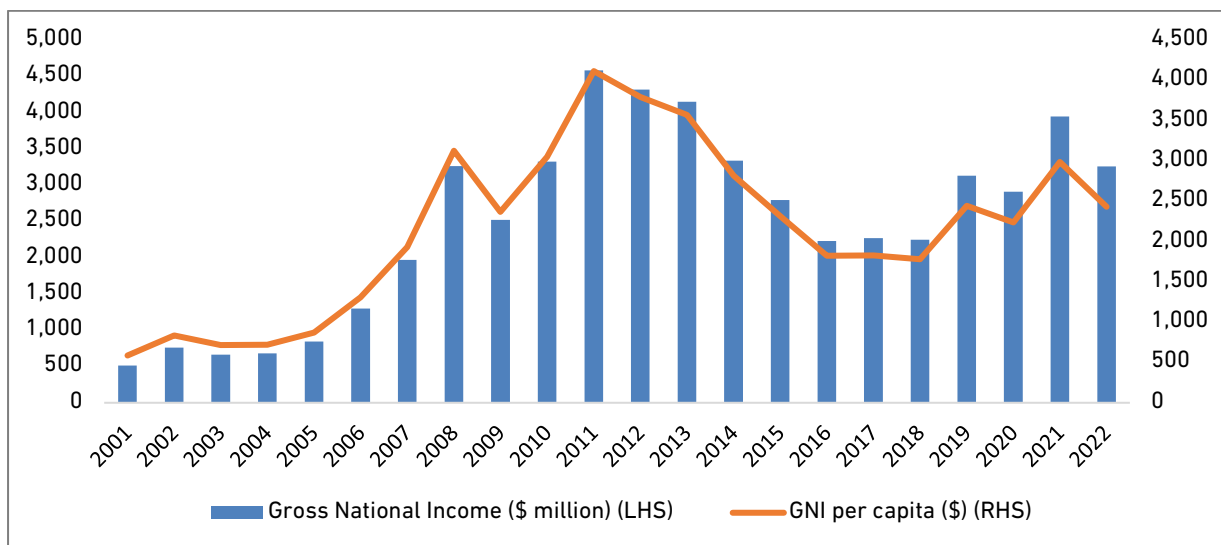


ASEAN = Association of Southeast Asian Nations, GDP = gross domestic product.  
Source: Author based on World Bank (2024), World Development Indicators.  
<https://api.worldbank.org/v2/en/indicator/NY.GDP.PCAP.KD.ZG?downloadformat=excel> (accessed 2 January 2024).



Timor-Leste’s gross national income (GNI) was US\$3,258 in 2022 (Figure 4), of which oil accounted for 43%, giving GNI per capita of US\$2,431 in 2022. The reduction of 17.4% in GNI in 2022 is due to the royalties received from the oil sector being shifted to GDP as value added, as well as the decrease in the income receivable from non-resident units (Government of Timor-Leste, 2023c: xiv). The observable fluctuations in GNI are due to the volatility of international oil prices, which began to decrease in 2012.

**Figure 4: GNI and GNI per capita of Timor-Leste, 2001–2022**

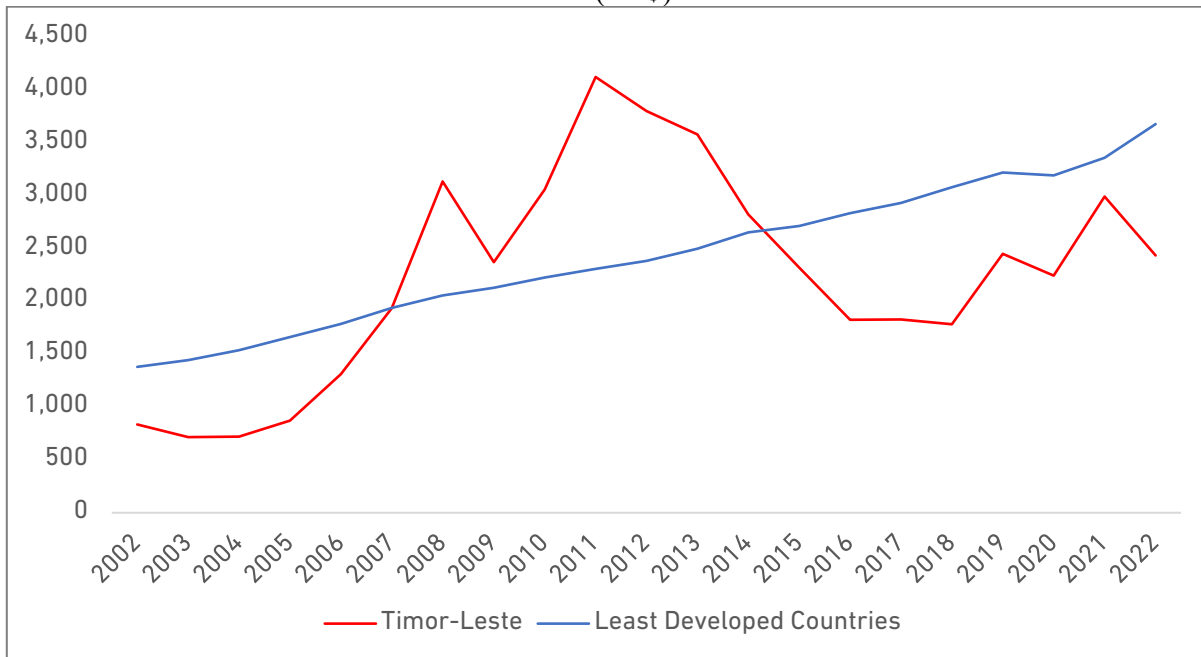


GNI = gross national income, LHS = left-hand side, RHS = right-hand side.

Source: Government of Timor-Leste (2023c).

In 2007–2014, Timor-Leste outperformed LDCs in terms of average GNI per capita (Figure 5) but has since lagged because of the plunge in international oil prices. The downward trend in Timor-Leste’s GNI per capita has continued until today, along with declining oil revenues, while the other LDCs continue to see an upward trend.

**Figure 5: GNI per Capita of Timor-Leste and LDCs, 2002–2022**  
(US\$)



GNI = gross national income, LDC = least developed countries.

Sources: For Timor-Leste: Government of Timor-Leste (2023c); for the least developed countries: World Bank (n.d.-c), GNI per Capita, PPP (current international \$) – Least Developed Countries: UN Classification.

<https://data.worldbank.org/indicator/NY.GNP.PCAP.PP.CD?end=2022&locations=XL&start=2002> (accessed 27 December 2023).

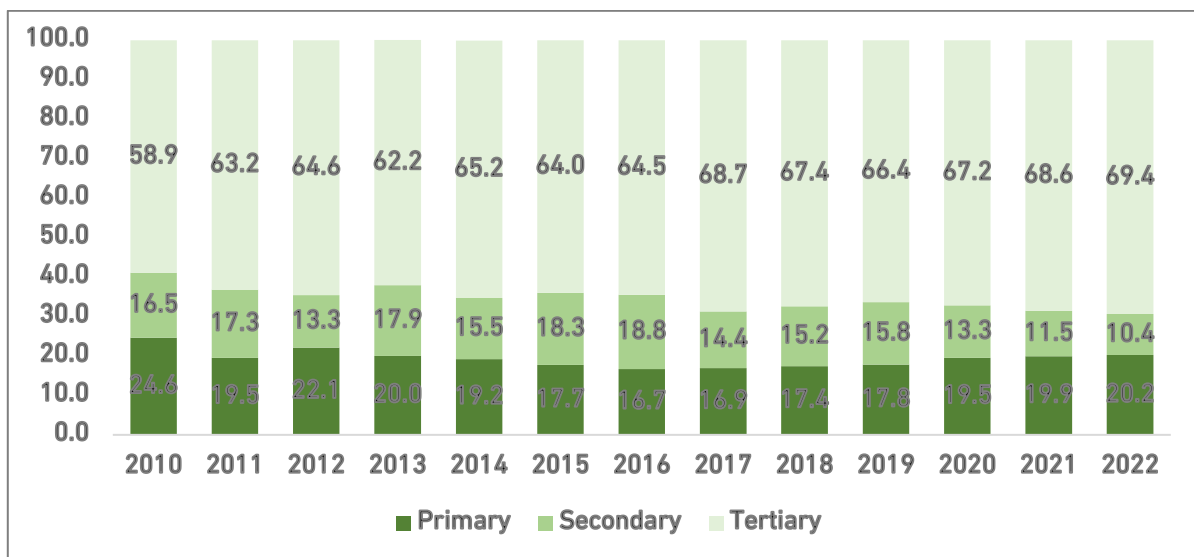
Timor-Leste aspires to reach upper middle-income status by 2030, as envisaged in the Strategic Development Plan, 2011–2030: ‘The economic vision of the Strategic Development Plan is that by 2030, Timor-Leste will have joined the ranks of upper middle-income countries, eradicated extreme poverty and established a sustainable and diversified non-oil economy’ (Government of Timor-Leste, 2011: 195). This requires GNI per capita to reach US\$4,256. For the moment, Timor-Leste remains a lower middle-income economy, along with six AMS: Cambodia, Indonesia, the Lao PDR, Myanmar, the Philippines, and Viet Nam.

## 2.2. Sectoral output

Along with sluggish and volatile growth, there has been a very slow structural transformation of output, in terms of value added by agriculture, manufacturing, and services, especially since 2010 (Figure 6). The share of the agriculture sector declined at a rate of –18% in 12 years, from 24.6% in 2010 to 20.2% in 2022. Since 66% of Timorese depend on agriculture, the declining share of output in the sector may suggest that the distribution of income has not improved. Low productivity and lack of investment, innovation, and

appropriate policies have prevented this sector from achieving a significant weight in the economy. Agriculture could be one of the main sources of future economic growth, not only because most of the rural poor depend on it for their livelihoods, but also to minimise their exposure to uninsured risks such as illness, hunger, crop failure, civil unrest, and death of a family member. For many years, investment in agriculture has remained unchanged in Timor-Leste, at 1.5%–2.2% of the total annual budget.

**Figure 6: Structure of the Non-Oil Economy of Timor-Leste, 2010–2022 (%)**



Source: Government of Timor-Leste (2023c).

Meanwhile, the share of the secondary sector (mainly manufacturing and construction) continued to decline during 2010–2022, by –37%. The total gross value added of the secondary sector was estimated to be US\$165 million in 2022, and its share of the overall economy was estimated at only 10.4%. The insignificant share of this sector, which employed 25,200 workers in 2021, may not be good for the economy in the longer term. Manufacturing is an important sector in promoting economic growth and development, through transformation of the output of the primary sector into value-added goods that are suitable for domestic consumption or export. Yet, this is a sector that tends to grow slowly and has remained underdeveloped.

However, the share of the services sector continued to grow, by 18%, during 2010–2022. In 2022, services captured the largest portion of the economy, accounting for 69.4%, with gross value added of US\$1.1 billion, which contributed 3.6 percentage points to the non-oil GDP in 2022. Growth of financial services and insurance was notable, standing at 66.2%, followed by accommodations and restaurants (34.7%), and public administration (7.6%). Despite having a

higher growth rate, the financial and insurance's contribution to the non-oil GDP was modest, accounting for only 0.9 percentage points.

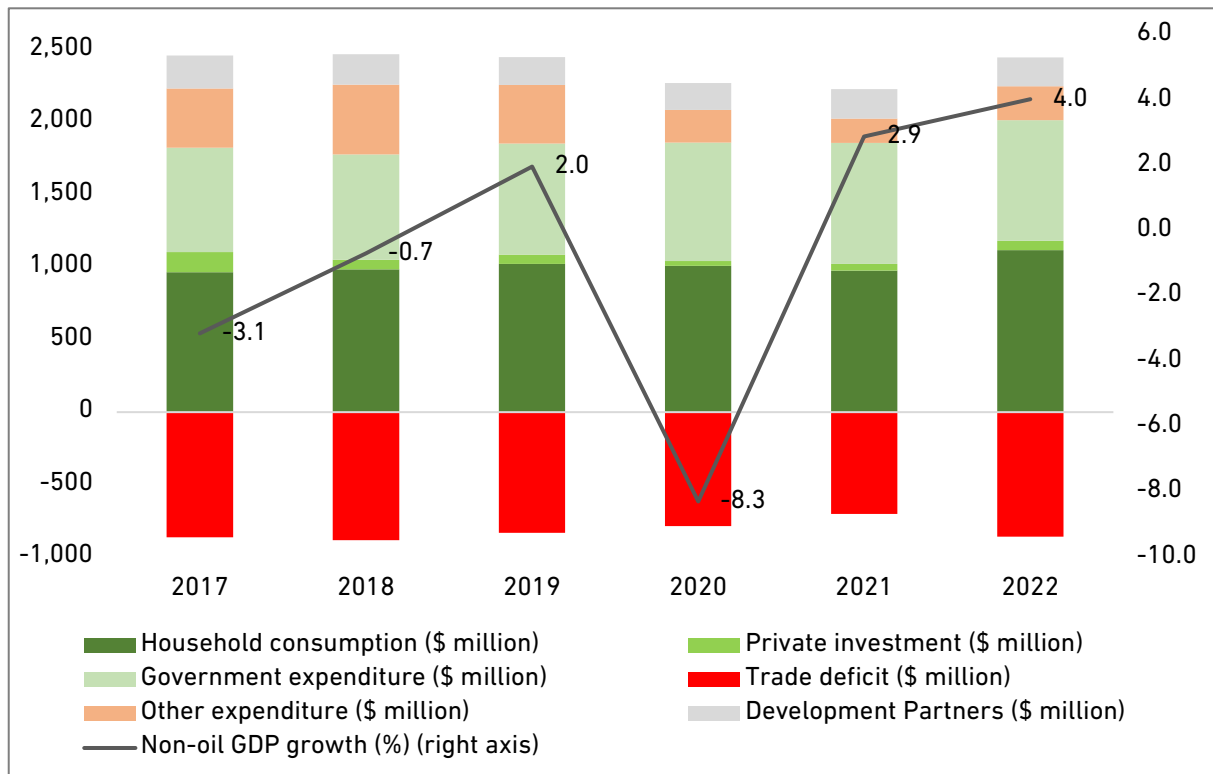
Conversely, public administration, with a lower growth rate, continued to have an excessive weight in the non-oil GDP, with a substantial contribution of 2.4 percentage points. As the weight of the public sector increases, it is possible that instability may reoccur in the future should the government fail to find antidotes for it and/or revamp the current economic model.

Low productivity is a major problem across all sectors of the domestic economy. During 2011—2017, Timor-Leste registered a negative rate of labour productivity, at  $-7.2\%$ , which is the lowest rate ever recorded for all LDCs. By contrast, during the same period, Myanmar achieved the highest rate ( $9.6\%$ ), followed by the Lao PDR ( $5.3\%$ ) and Cambodia ( $4.9\%$ ) (UNCTAD, 2020a: 43).

Given the general low productivity level of the workforce, however, the increase in the share of the services sector cannot be interpreted as a sign of modernisation. Rather, the engagement of a large proportion of the population in the informal, low-end services sector is driven by necessity rather than by opportunity. The expansion of the services sector is in line with the increase in low value-added, low-skill activities such as informal retail trade, repair of motorbikes, street vending, accommodation, and food, which require low-skilled intensive labour.

Looking at the components of GDP (Figure 7), it is worrisome that public consumption has the most weight in the economy, while private investment is still very low. This is a consequence of low labour productivity, an inadequate business ecosystem, and climate change, as well as frequent political risk leading to abnormal execution of the budget. These factors have contributed to a significant fall in consumption and public and private investment in the recent past.

**Figure 7: Components of Non-Oil GDP of Timor-Leste, 2017–2022**



GDP = gross domestic product.

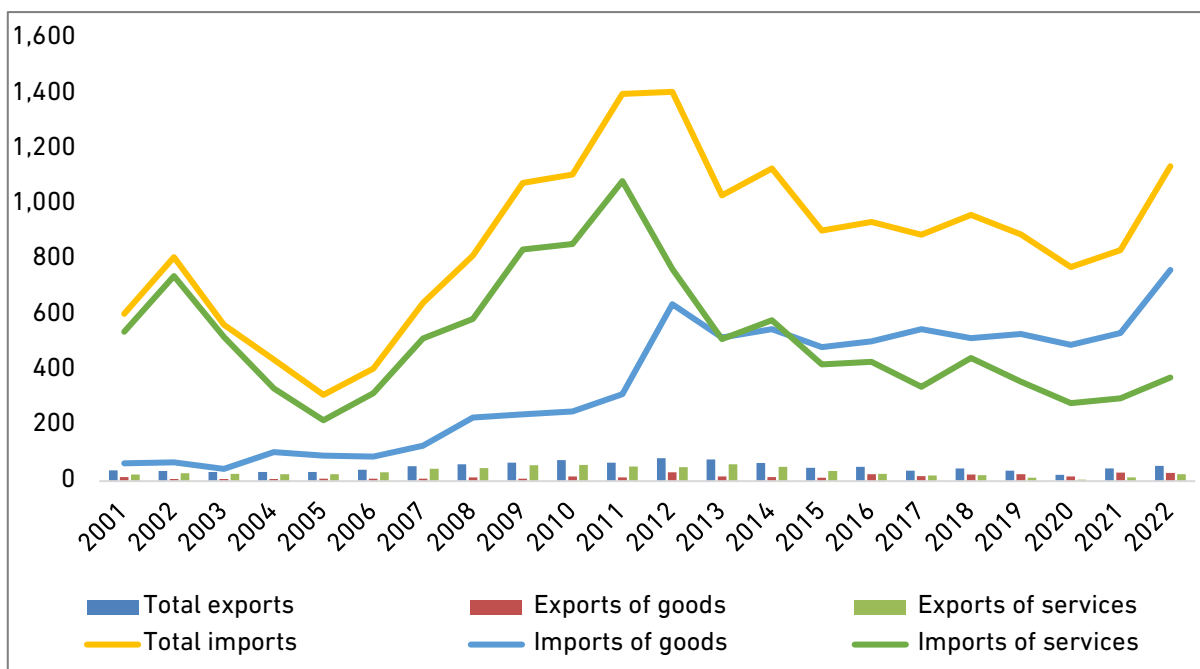
Source: Government of Timor-Leste (2023b).

As the business ecosystem remains inadequate, combined with the lack of access to finance and disconnection from global value chains, Timor-Leste’s business fabric continues to be dominated by informal activities patterned by a multitude of micro and small enterprises and a limited number of medium-sized companies. The International Monetary Fund (IMF) confirmed this situation in its Article IV Consultation Report 2022, stating that ‘The non-oil private sector economy remains underdeveloped, with informal and low-productivity employment. Significant gaps exist in health and education, and the lack of formal jobs and high youth unemployment are serious concerns’ (IMF, 2022: 4). To a large extent, and given the unfriendly business environment, the private sector is driven by public contracts rather than opportunity and often operates informally in low value-added sectors. These sectors are affected by supply- and demand-side constraints (as they are dependent on a few large companies) that prevent them from increasing output, operating effectively, and acquiring and upgrading technologies. Consequently, private investment tends to remain small and drops in times of political uncertainty when budgets are delayed. The result is that the businesses lack the potential to grow, they cannot innovate, and they contribute little to employment generation and wealth. Therefore, the business fabric can only play a marginal role in promoting economic

growth and structural transformation. By continuing to rely on transfers from the Petroleum Fund to finance the growing public administration, there is limited room for developing private productive labour-intensive sectors, which makes it even more difficult for local businesses to compete with relatively cheap imported merchandise. This explains Timor-Leste’s large trade deficit.

As with exports (Figure 8), Timor-Leste relies on organic coffee, which is the country’s most important agricultural cash crop. In nominal terms, the value of coffee exports was US\$35 million in 2022, which accounted for only 2.2% of the non-oil GDP. So far, the coffee sector has not received adequate investment to have a transformative impact on reducing poverty amongst coffee-producing households. The significant rise in exports is due to overseas travel, along with the rise in imports of goods and services. The rise in imports of goods is mainly due to increases in food products, mineral products, and machinery/electrical goods, reaching a total value of US\$894 million in 2022. Clearly, the growth in imports of goods and services represented a leakage of GDP, standing at 56.3% in 2022.

**Figure 8: Foreign Trade Statistics of Timor-Leste, 2001–2022 (US\$ million)**



Source: Government of Timor-Leste (2023c).

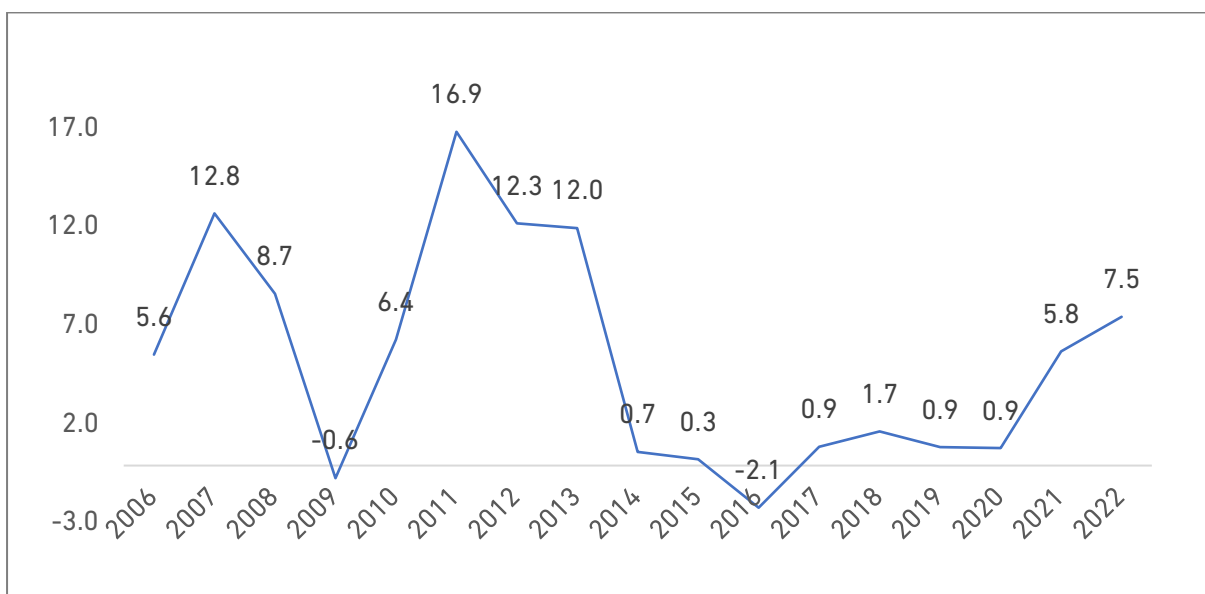
A strong potential area of exports that has not been taken seriously is the export of Timorese workers. Since 2014, thousands of young people have left Timor-Leste to work in Korea, Australia, and the United Kingdom. These countries are the main recipients of Timorese

workers, besides Portugal, Japan, and other countries. Remittance inflows to Timor-Leste have more than doubled since 2015, increasing from US\$62 million to an estimated US\$171 million in 2021, which is 8.7% of GDP (Government of Timor-Leste, 2022a), and they are a significant source of Timor-Leste’s foreign exchange resources. In 2022, remittance inflows reached an estimated US\$185 million (Rezza et al., 2024: 34). As more Timorese workers have joined the Pacific Australia Labour Mobility Scheme, the number of job opportunities have tripled in the early months of 2024, making remittance inflows increase significantly.

### 2.3. Inflation

Timor-Leste continues to be heavily import dependent, which means that the country is highly exposed to global price volatility (Figure 9). As rising public spending boosted economic growth in the early years following the 2006 civil unrest, inflation also rose. Inflation reached double digits in 2007 during high growth rates of real non-oil GDP, and between 2011 and 2013, driven by rising global food prices and reflecting food’s 60% weight in the consumer price index basket (IMF, 2008). Public spending has more than tripled since 2007 and continues to rise rapidly, increasing inflationary pressure in this tiny, underdeveloped economy. The introduction of a rice subsidy programme in 2008 to ease the burden on consumers was discontinued soon after. Two reasons led to the termination of rice subsidies, including payments to resettle displaced persons from the 2006 political crisis and lower commodity prices.

**Figure 9: Food and Non-Alcoholic Beverages Price Index, 2006–2022**



Source: ADB (2023b).

From early 2011 until 2013, inflation in Timor-Leste remained very high, reaching double digits far above that of other low-income countries in Asia, due to the rise in global commodity prices in 2010. According to the IMF, imported and local food inflation has been the main driver of inflation in Timor-Leste, but non-food inflation had also risen to double digits, contributing 4 percentage points to inflation. A weak United States (US) dollar and strong demand from rising government spending also contributed to higher inflation. As government spending has more than tripled since 2007 and continued to rise rapidly, reaching its peak in 2012, increased inflationary pressure was unavoidable (IMF, 2012).

In 2013, inflation remained persistently high, at double digits, as government spending continued to rise. This led to macroeconomic imbalances characterised by very high non-oil fiscal deficits, a decline in competitiveness, and the erosion of sustainability (IMF, 2013).

In line with the global trend, inflation levels in 2021 and 2022 were significantly high. In 2022, inflation hit 7.5%, up from 5.8% in 2021 and 0.9% in 2020. Although inflation surged to above 8% in 2023, mainly driven by food prices and transport costs, it fell to 4.3% in January 2024 (IMF, 2024). Inflation rates in 2021 and 2022 were explained by restrictions on the supply side – the constraints felt in the international logistics chains – but also by the more pronounced recovery in aggregate demand in 2022. The war in Ukraine has exacerbated inflationary pressures, causing a sharp rise in the price of energy and food raw materials on international markets (IMF, 2022).<sup>8</sup>

Inflation affects the poor directly through a decline in their purchasing power. If inflation is not anticipated, the poor are harmed disproportionately because the great majority are unable to hedge against inflation due to their low capacity or lack of capacity to save. We have seen that throughout the period of high economic growth, inflation reached double-digit rates. The following section shows that the annual rate of poverty reduction during 2007–2014 was 2.1% on average in the country, but only 1% in rural areas.

#### **2.4. *Looking ahead***

The previous sections have shown that the current economic model needs to be revisited if Timor-Leste wants to reap the benefits of being a full member of ASEAN; the old norms and same way of doing business will make Timor-Leste unable to converge with its peers in the

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<sup>8</sup> The World Food Programme estimated that from July 2022 to July 2023, there was a 16% increase in the price of imported rice due to a number of factors, including the impact of El Niño, reduced production in Indonesia as a result of low precipitation, and the introduction of limitations to Indian rice exports, amongst others. The increase in the price of imported rice directly affected domestic prices, peaking at US\$0.66 per kilogram in July 2023 (World Food Programme, 2023).



ASEAN bloc. Timor-Leste may have far fewer opportunities to diversify its production by continuing to rely on the Petroleum Fund, which is projected to deplete within a decade. Challenges include extending the lifetime of the Petroleum Fund, diversifying the sources of domestic revenue, and expanding the tax base – by bringing more citizens into the formal economy; creating decent, well-paid, productive jobs; supporting the development of national industries; and investing in economic sectors where Timor-Leste has a comparative advantage, e.g. the blue economy, agro-industry, and ecotourism. Growth is a powerful instrument to reduce poverty and improve well-being, but greater attention should be given to policies that boost growth through a more dynamic private sector, while aggressively focusing on human resources development; strengthening food security, health, and education systems; promoting trade facilitation; and enhancing micro, small, and medium-sized enterprises.

As an LDC, Timor-Leste has received significant support from donors, whose annual contribution has been around 10% of the total state budget. Timor-Leste needs to take advantage of its geopolitical position in the region by continuing to maintain strategic partnerships with its traditional partners – the European Union, Portugal, Australia, the US, Korea, and Japan – and other potential partners that have shown great interest in key sectors of the economy that are at an incipient stage of development – agro-industry, ecotourism, hospitality, and public financial management – including China, Indonesia, Brunei, and Singapore.

With the great donor appetite, it is important that the Timor-Leste Development Partners' Annual Meeting be used as an integrated platform to develop concrete and effective projects and activities that promote Timor-Leste's closer economic integration in areas that are critical for full membership of ASEAN. The bilateral and multilateral donors should assist in financing a tailor-made Initiative for ASEAN integration of Timor-Leste and build on capacity building programs to selected line ministries that some donors have begun to implement recently.

The coming years will require Timor-Leste to focus on building internal capacities – human capital development, institutional capacity enhancement, and infrastructure – that are not only prerequisites for responding to the demands of full ASEAN membership but can also generate higher economic growth rates and more opportunities for the private sector to grow and expand its role in the domestic economy. It is also necessary to keep working on establishing conditions for a peaceful and inclusive society, by narrowing the rural–urban divide.

### 3. Development Challenges

Timor-Leste continues to experience persistent multidimensional poverty. This suggests that the benefits of growth are not reaching the poorest people who live in rural areas. Wealth is concentrated in the hands of a few,<sup>9</sup> and disparities are present in income-earning opportunities between men and women, urban and rural communities, and educated and less educated groups, as well as health standards. About 40% of Timorese still live below the poverty line; stunting due to malnutrition still affects nearly half of all children below the age of five; and anaemia affects more than one-fifth of women of reproductive age. Many low-income people who cannot afford goods or services live in rural areas – a consequence of low productivity and lack of productive employment.

These structural problems in the domestic economy predate the COVID-19 pandemic and underscore the fragility of the country. They also inhibit economic growth and human development, increasing the country's exposure to health shocks (e.g. pandemics and epidemics) or political risk due to electoral cycles, discontinuation of social programmes, and policy changes, or the effects of climate change (e.g. droughts, floods, and cyclones).

Notwithstanding the progress that has been made in some indicators, the situation in Timor-Leste today remains qualitatively not much different from when the country regained its independence in 2002.

In 2020, Timor-Leste had the lowest Human Capital Index (0.45), even compared with ASEAN's three least developed countries: the Lao PDR (0.46), Myanmar (0.48), and Cambodia (0.49) (World Bank, n.d.-b; World Bank, 2023).

As noted earlier, the sluggish, volatile, and non-inclusive growth of the real economy has not been capable of generating enough jobs for those seeking them, which leads to lower household incomes, making them unable to meet basic needs. Basic needs are important instruments of development as they help to raise labour productivity, promote active citizenship, make institutions perform better, and support more dynamic democratic forms of governance in the country. High growth, driven by increased public spending, also led to high inflationary pressure, which had been detrimental to the poor.

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<sup>9</sup> The richest 10% of the population holds 24.0% of the income share and the richest 1% holds 15.7%, whereas the poorest 40% holds 22.8% (World Inequality Database, 2022).

### 3.1. Overall human development

The United Nations Development Programme (UNDP) Human Development Report 2021/2022 ranked Timor-Leste 140th out of 191 countries, with a Human Development Index (HDI) of 0.607, on a par with the Lao PDR (Table 1). Although Timor-Leste is in the medium human development category, its HDI has not improved since 2010, falling by an annual average of  $-0.18\%$ . The country dropped four places in the HDI ranking from 2010 to 2021, indicating a noticeable gap with most AMS. In contrast, the HDI of AMS increased by an annual average of  $0.58\%$  and rose an average of two places in the HDI ranking during the same period.

**Table 1: Human Development Index – Timor-Leste and ASEAN, 2010–2021**

HDI rank	Country	Human Development Index						Change in HDI	Variation
		2010	2015	2018	2019	2020	2021	rank 2015-2021	(%) 2010- 2021
<b>Very high human development</b>									
12	Singapore	0.910	0.930	0.940	0.943	0.939	0.939	-1	0.29
51	Brunei Darussalam	0.828	0.836	0.830	0.830	0.830	0.829	-3	0.01
62	Malaysia	0.769	0.797	0.807	0.810	0.806	0.803	1	0.39
66	Thailand	0.737	0.781	0.795	0.804	0.802	0.800	6	0.75
<b>High human development</b>									
114	Indonesia	0.664	0.695	0.710	0.716	0.709	0.705	3	0.55
115	Viet Nam	0.663	0.684	0.697	0.703	0.710	0.703	5	0.53
<b>Medium human development</b>									
116	Philippines	0.674	0.698	0.710	0.718	0.710	0.699	0	0.33
140	Lao People's Democratic Republic	0.551	0.599	0.607	0.610	0.608	0.607	1	0.88
140	<b>Timor-Leste</b>	<b>0.619</b>	<b>0.614</b>	<b>0.605</b>	<b>0.614</b>	<b>0.614</b>	<b>0.607</b>	<b>-4</b>	<b>-0.18</b>
146	Cambodia	0.540	0.574	0.591	0.598	0.596	0.593	3	0.85
149	Myanmar	0.510	0.562	0.590	0.598	0.600	0.585	1	1.26

ASEAN = Association of Southeast Asian Nations, HDI = Human Development Index.

Source: UNDP (n.d.), Human Development Index (HDI). <https://hdr.undp.org/data-centre/human-development-index#/indicies/HDI> (accessed 30 December 2023).

When inequality is discounted, Timor-Leste's Inequality-Adjusted Human Development Index (IHDI) falls to 0.440, a 'loss' of 27.5% (UNDP, 2022: 283). This is below the IHDI of Cambodia (0.479), which experiences a loss of 19.2%, and the Lao PDR (0.459), which has a loss of 24.4%. The loss in Timor-Leste's HDI was greater than the average (24.4%) for countries in the medium human development category. While the HDI can be viewed as an index of potential human development, the IHDI is an index of actual human development.

Hence, the ‘loss’ in potential human development – due to inequality in all three dimensions of the HDI by ‘discounting’ each dimension’s average value according to its level of inequality – is given by the difference between the HDI and the IHDI, and it is expressed as a percentage.

Women benefit less than men from economic development in Timor-Leste. The HDI for females is 0.580, in contrast with 0.633 for males. In terms of mean years of schooling, females receive less years of schooling (4.7 years) as opposed to males (6.2 years), and males earn on average US\$5,248 per year compared with females who earn only US\$3,642 (in 2017 purchasing power parity).

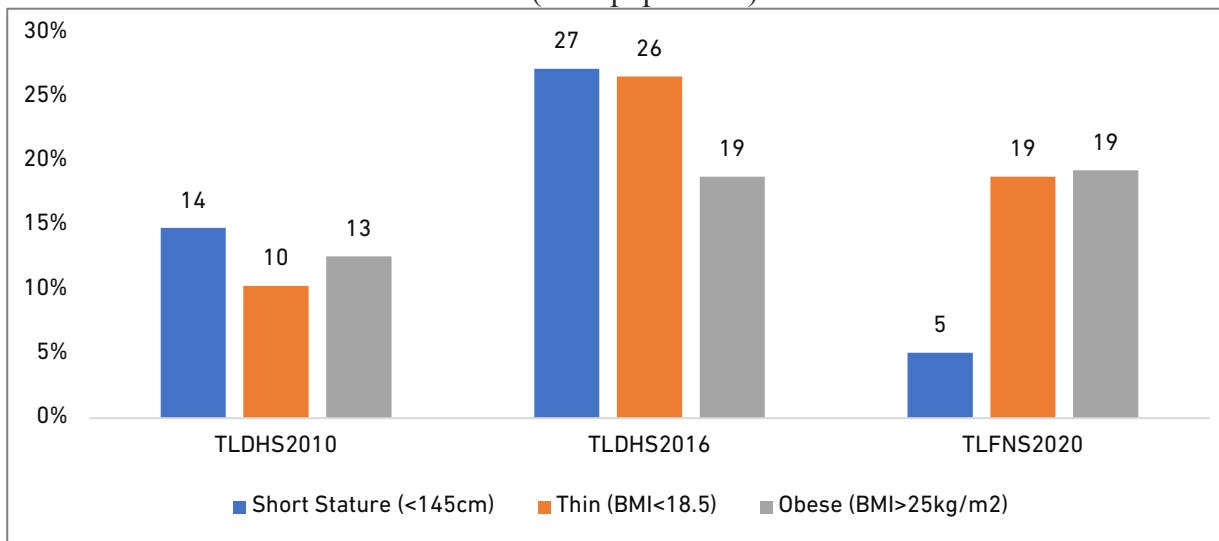
In 2016, Timor-Leste presented a Multidimensional Poverty Index (MPI) value of 0.215, with about half of the population (46.9%, 574,000 people) being poor. In 2019, the population in multidimensional poverty rose to 48.3%, and the intensity of deprivation affects 45.9% of poor people (UNDP, 2022: 297). The multidimensional poverty headcount is higher than that of income poverty, which tells only part of the story. In 2015, multidimensional poverty ranged from only 25% in Dili Municipality to over 80% in several rural municipalities (Cornwell, Inder, and Datt, 2015). If the household deprivation score is equal to or higher than 33.3%, that household (including everyone in it) is classified as multidimensionally poor. Households with a deprivation score greater than or equal to 20% but less than 33.3% are vulnerable to or at risk of becoming multidimensionally poor. The population in severe multidimensional poverty is 17.4%, and the percentage of those vulnerable to multidimensional poverty is 26.8% (UNDP, 2022: 297).

The gap in terms of MPI value is stark between Timor-Leste and other AMS that were assessed: Thailand (0.002), Indonesia (0.014), the Philippines (0.028), Cambodia (0.070), the Lao PDR (0.108), and Myanmar (0.176). The higher the MPI value, the more likely individuals living above the poverty line still suffer deprivations in terms of education, health, and other living conditions.

### **3.2. Poverty**

According to the last living standards survey in 2014, about 42% of the population in Timor-Leste still lived below the national poverty line (Figure 10), with most of the population not having permanent incomes and living as subsistence farmers. Even with some reduction of poverty since 2007, at an annual rate of 2.1%, the incidence of poverty measured by the national poverty line (US\$1.54/capita/day) was higher in 2014 than in 2001. An increase in poverty incidence between 2001 and 2007 was a clear consequence of the destruction of the economy at the end of Indonesia’s occupation and the 2006 civil unrest.

**Figure 10: Timor-Leste National Poverty Line**  
(% of population)



BMI = body mass index, cm = centimetre, kg/m<sup>2</sup> = kilograms by height in metres squared, PPP = purchasing power parity, TLDHS = Timor-Leste Demographic and Health Survey, TLFNS = Timor-Leste Food and Nutrition Survey.

Sources: Author based on World Bank Water Data (2001), Timor-Leste – Living Standards Survey 2001. <https://wbwaterdata.org/dataset/timor-leste-living-standards-survey-2001> (accessed 20 November 2023); National Statistics Directorate (2018); and Government of Timor-Leste (2016).

Table 2 shows that the incidence of poverty was far higher in rural areas (47.1%) than in urban areas (28.3%). The difference between the rate of poverty reduction in urban areas is also stark – while the annual rate of reduction was 4.5% in urban areas, indicating an average growth elasticity of poverty of  $-0.88$ , it was 1.0% annually in rural areas, where most of the population live, indicating a far lower average growth elasticity of poverty of  $-0.21$ . Poverty is also prevalent amongst self-employed people (53.0%), including the informal sector, those with less formal education (48.0%), and children (49.0%), compared with older persons (26.8%).

Children are more heavily impacted by poverty, mainly because a larger proportion of poorer households have more children and reduced access to health services and education. A study by the United Nations Children’s Fund (UNICEF) in 2019 showed that children living in rural areas were more likely to live in poverty (53.1%) than those in urban areas (33.0%) (Government of Timor-Leste and UNICEF, 2020).

**Table 2: Incidence of Poverty in Timor-Leste, 2007–2014**  
(%)

Item		2007	2011	2014	% change 2007–2014
<b>National average \$1.54 per day</b>		<b>50.4</b>	<b>43.8</b>	<b>41.8</b>	<b>-17.0%</b>
<b>National average \$1.90 per day (at 2011 PPP)</b>		<b>47.2</b>	<b>77.8</b>	<b>30.3</b>	<b>-35.8%</b>
Area	Urban	45.2	20.0	28.3	-37.3%
	Rural	51.5	53.4	47.1	-8.5%
Head of household	Men	50.6	44.0	43.4	-14.2%
	Women	43.5	32.3	27.6	-36.5%
Age	Children (0–15)	56.1	50.3	49.0	-12.6%
	Adults (16–59)	45.9	39.0	38.6	-12.6%
	Older persons >60)	33.6	30.0	26.8	-20.2%
Employment status of head of household	Self-employed, agriculture	49.0	51.2	53.0	8.1%
	Self-employed, non-agriculture	N/A	38.5	31.7	N/A
	Employed	28.0	12.6	27.5	-1.7%
Education status of head of household	Tertiary	17.7	3.8	24.7	39.5%
	Secondary	34.3	21.6	34.3	0.0%
	Primary	50.1	45.0	41.9	-16.3%
	Kindergarten	54.3	38.5	46.8	-13.8%
	No formal education	57.5	47.0	48.0	-16.5%

N/A = not available, PPP = purchasing power parity.

Sources: Author based on World Bank Water Data (2001), Timor-Leste – Living Standards Survey 2001. <https://wbwaterdata.org/dataset/timor-leste-living-standards-survey-2001> (accessed 20 November 2023);

National Statistics Directorate (2018); Government of Timor-Leste (2016); and ILO and MSS (2018).

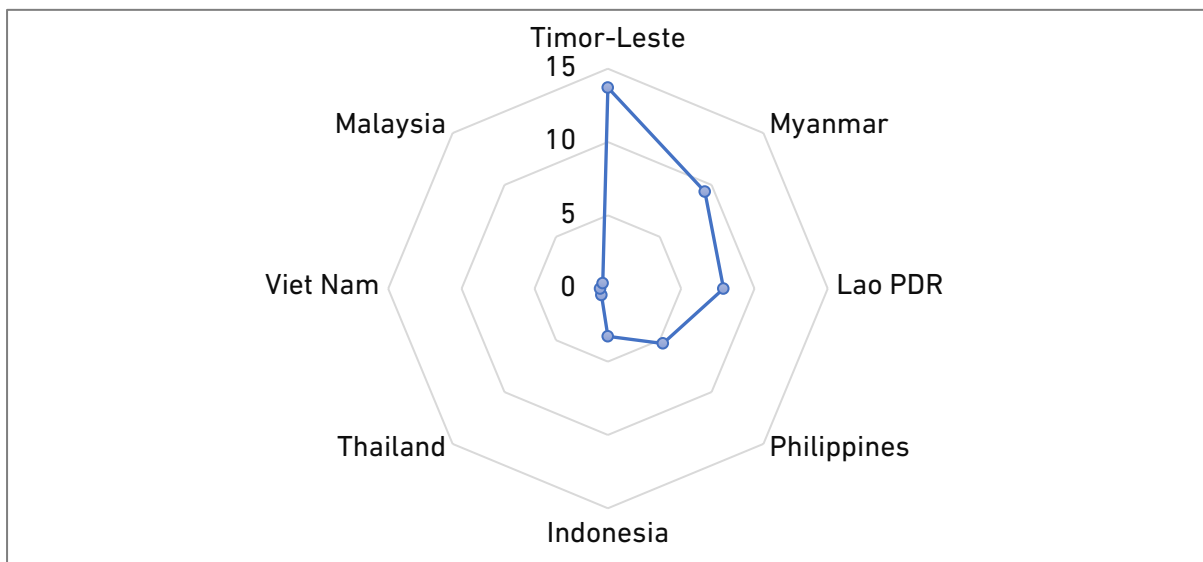
Although the Population and Housing Census 2022 (Government of Timor-Leste, 2023d) suggested improvements in living conditions, vulnerability remains with significant gaps between rural and urban areas. For example, households with unimproved sources of drinking water have decreased from 21% in 2016 to 13% in 2022. In rural areas, 17% of households still rely on unimproved water sources, compared with 2% in urban areas. Similarly, 24% of rural households are still without improved sanitation facilities, compared with 5% in urban areas.

Poverty data are outdated, and to fill a decade-long gap in poverty estimation since the last survey in 2014, the government plans to conduct the next living standards survey in 2024. In the meantime, the Asia Foundation (2023) released a report based on a qualitative survey of the Timorese people’s perceptions about the biggest problems facing the nation today. Poverty

came first and was identified by 60% of the respondents, followed by lack of quality employment opportunities (46%) and lack of infrastructure (39%). According to the Asia Foundation’s survey, 54% considered poverty to be the principal problem affecting directly the communities, followed by lack of quality employment opportunities (47%) and lack of infrastructure (45%).

If we compare the proportion of the population below US\$2.15/day (2017 purchasing power parity (PPP)) (Figure 11), Timor-Leste has the highest ratio (13.71%) amongst the selected AMS, whose ratios are below 10%.

**Figure 11: Poverty Headcount Ratio at US\$2.15/day in 2022 (2017 PPP)**  
(%)

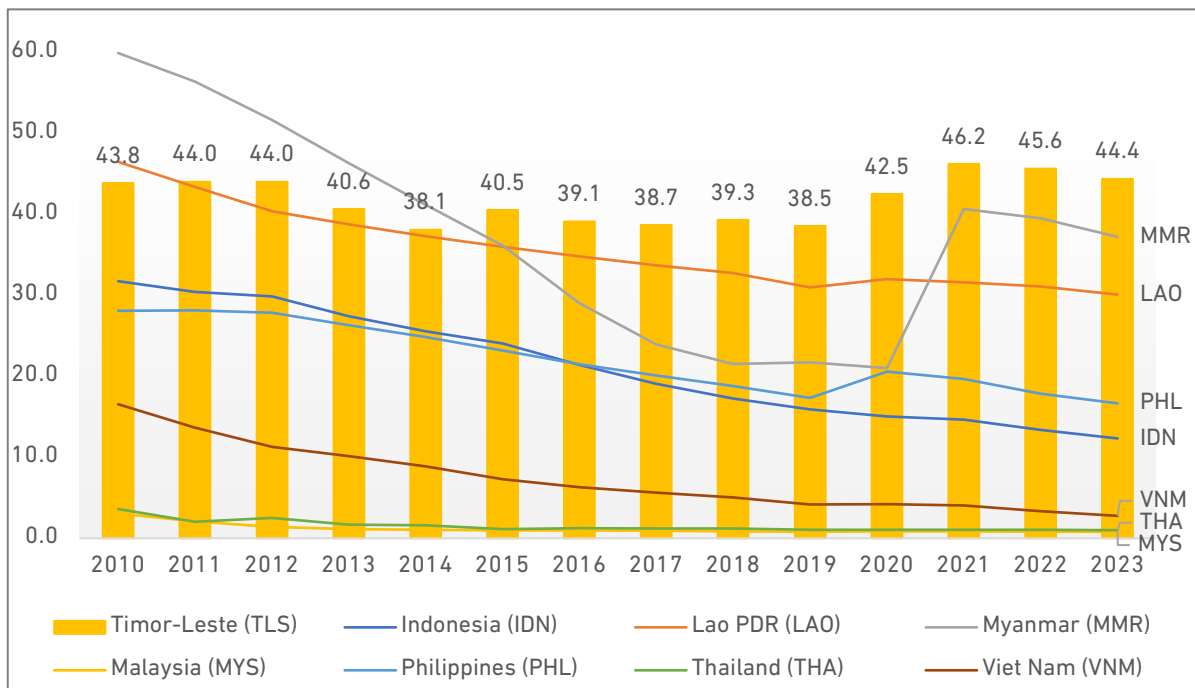


PPP = purchasing power parity.

Source: Independent Group of Scientists Appointed by the Secretary-General (2023).

Using a higher poverty line of US\$3.65/day (2017 PPP), the proportion in Timor-Leste is 44.4% (Figure 12), which is the highest amongst the selected AMS, even though the economy is growing.

**Figure 12: Poverty Headcount Ratio at US\$3.65/day, 2010–2022 (2017 PPP) (%)**



PPP = purchasing power parity.

Source: Independent Group of Scientists Appointed by the Secretary-General (2023).

As shown in Figure 12, in Timor-Leste, the rates of poverty (as a percentage of the total population) have increased by 0.3% annually, compared with the average rate of reduction for ASEAN of –3.9% annually – except Viet Nam, Malaysia, Thailand, and Indonesia, which experienced faster rates of reduction.

### 3.3. Employment

One of the main problems of Timor-Leste’s economy is its limited capacity to generate jobs for its citizens, due to its underdeveloped productive capacity. Timor-Leste’s Productive Capacities Index (UNCTAD, 2020b) is 29.28, positioning the country in 126th rank. The score is below the ASEAN average of 31.91, but above the Lao PDR (27.12), Cambodia (26.46), and Myanmar (24.49). Although Timor-Leste’s Productive Capacities Index score is very close to those of Indonesia (29.94) and the Philippines (29.88), the size of these economies is incomparable.

In Timor-Leste, the public sector offers limited formal employment opportunities, which are concentrated in public administration and in businesses that are dependent upon public contracts, mainly construction and maintenance works. The labour market is heavily dominated by informal and vulnerable employment.



The latest Labour Force Survey (LFS) showed that the working-age population aged 15 and above in Timor-Leste in 2021 totalled 809,300, with slightly more women (405,800) than men (403,600) (Government of Timor-Leste, 2022b). In 2022, the working-age population increased by 8%, based on the Population and Housing Census 2022, with slightly more men (441,600) than women (432,400) (Government of Timor-Leste, 2023d). The LFS showed that the total labour force was 247,000 in 2021, but the 2022 Population and Housing Census indicated a 27.0% increase. The overall labour force participation rate in Timor-Leste was estimated to be very low, at 30.5%, with men at 36.9% and women at 24.2%, according to the LFS. The 2022 census showed a slight increase in the labour force participation rate, at 35.9%, with men at 41.9% and women at 29.8%. Even with this small increase, it is still below the ASEAN average (64.9%), with Cambodia registering 75.8%, Viet Nam 73.0%, and Singapore 69.2% (TheGlobalEconomy.com, n.d.).

In total, employment in 2021 amounted to 234,300 (Table 3), which gives an employment-to-population ratio of 28.9%. Amongst the employed, 58.3% were men. A large share (71.1%) of the population was not directly involved in market-related activities. Unemployment totalled 12,700, indicating a general unemployment rate of 5.1%, down from 11% in 2013. The latest LFS also shows that unemployment amongst females was higher (5.9%) than for males (4.6%). For those aged 15–24, the unemployment rate was higher at 9.6%. Overall, unemployment seems to have fallen from 5.1% in 2021 to 2.9% a year later (2022).

**Table 3: Working Age Population by Status, 2010, 2013, 2021, and 2022**

Item	2010	2013	2021	2022
<b>Working-age population 15+ ('000)</b>	627.0	696.2	809.3	874.0
<b>Labour force ('000)</b>	262.0	213.2	247.0	313.7
<b>of whom employed ('000)</b>	252.0	189.8	234.3	304.7
<b>of whom unemployed ('000)</b>	9.0	23.4	12.7	9.0
<b>Outside labour force ('000)</b>	365.0	483.0	562.4	560.3
<b>Unemployment rate (%)</b>	3.4	11.0	5.1	2.9

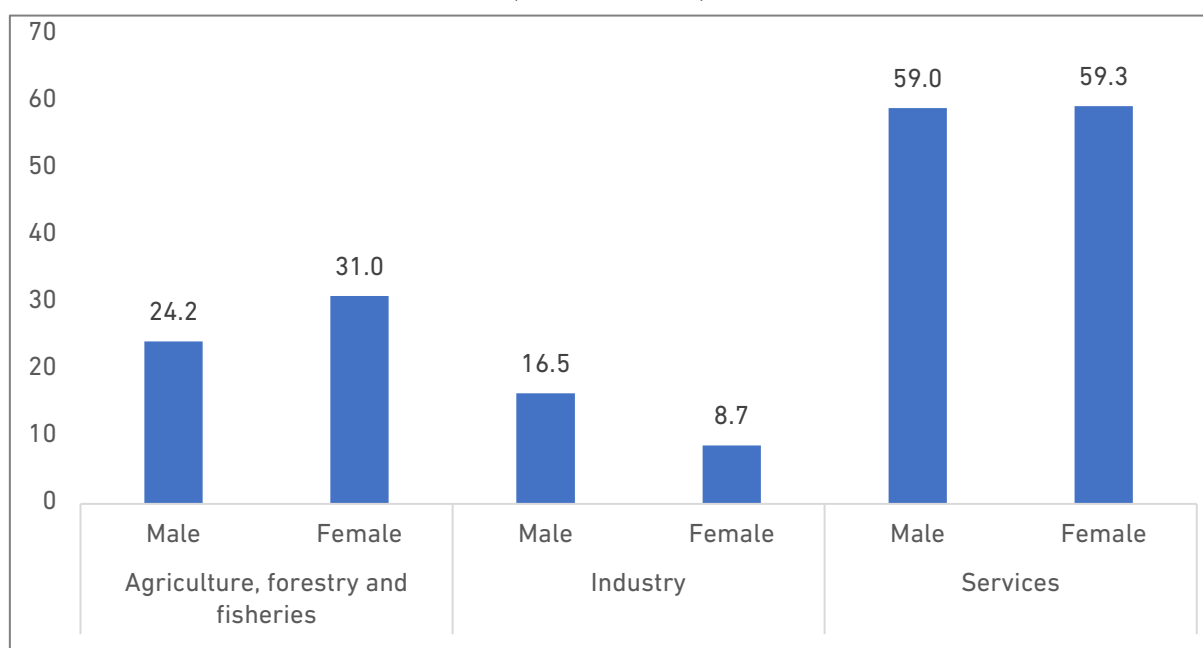
Sources: Government of Timor-Leste (2010; 2013; 2022b; 2023d).

One-third (30.7%) of the labour force had no formal education or did not complete primary education. Only one in six persons in the labour force had attended or completed

tertiary education. Persons who reached tertiary education had the highest labour force participation rate (63.6%), compared with those who had only primary education (18.5%).

By economic activity, about two-thirds (59.1%) of total employment was in low value-added, low-skill services such as retail, accommodation and food, motorbike repair, and street vending, whereas agriculture accounted for 26.9% and industry 13.5%. Men (16.5%) were more likely to be hired in the industry sector than women (8.7%), but in agriculture, 31.0% were women compared with 24.2% men (Figure 13).

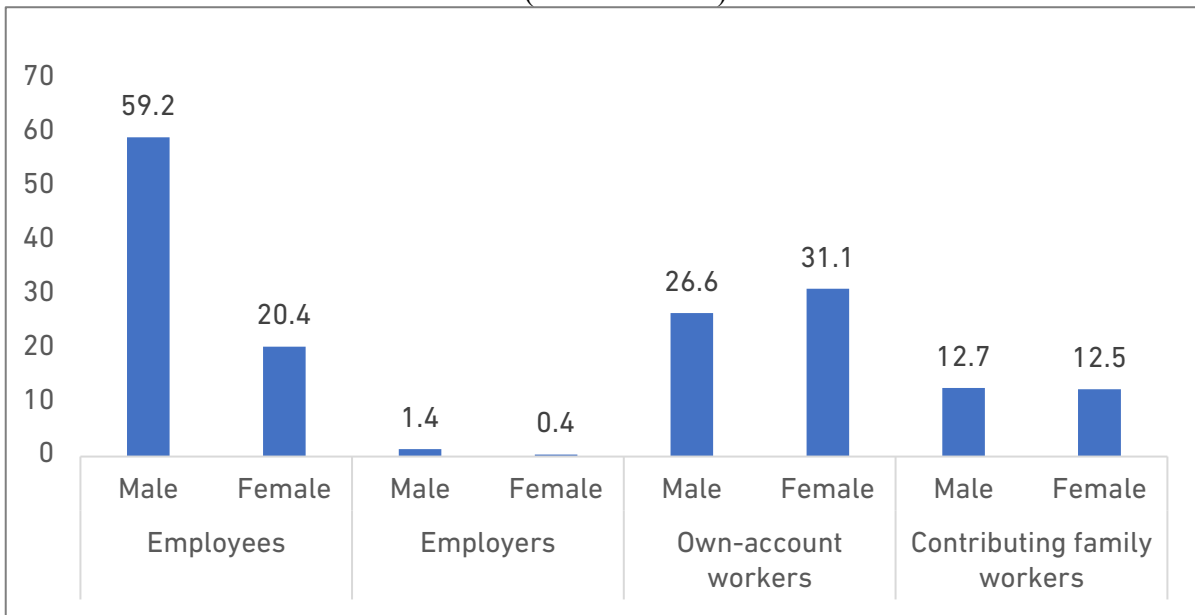
**Figure 13: Employment by Economic Activity and Sex, 2021**  
(% distribution)



Source: Government of Timor-Leste (2022b).

About half (48.3%) of the total employment was classified as wage employment, whereas the remaining 50.3% was self-employment (either as own-account workers or helping their families). Those who were classified as employers or engaging at least one worker accounted for 1.4% of total employment (Figure 14).

**Figure 14: Status of Employment by Sex, 2021**  
(% distribution)



Source: Government of Timor-Leste (2022b).

The LFS also presented disturbing information, as 82,300 young people aged 15–24 were at risk of being excluded from both the labour market and society as they were not in education, employment, or training (NEET). They represented 30.5% of young people of this age cohort. Young women (31.3%) were more likely to be classified as NEET compared with young men (29.8%).

Jobs that are being created by the public sector may not be sustainable in the long term, given the reduced oil revenues to finance public administration. This could lead to chronically low wages, discouraging workers with higher levels of education in a process that puts Timor-Leste at a disadvantage compared with the neighbouring and highly competitive countries in ASEAN.

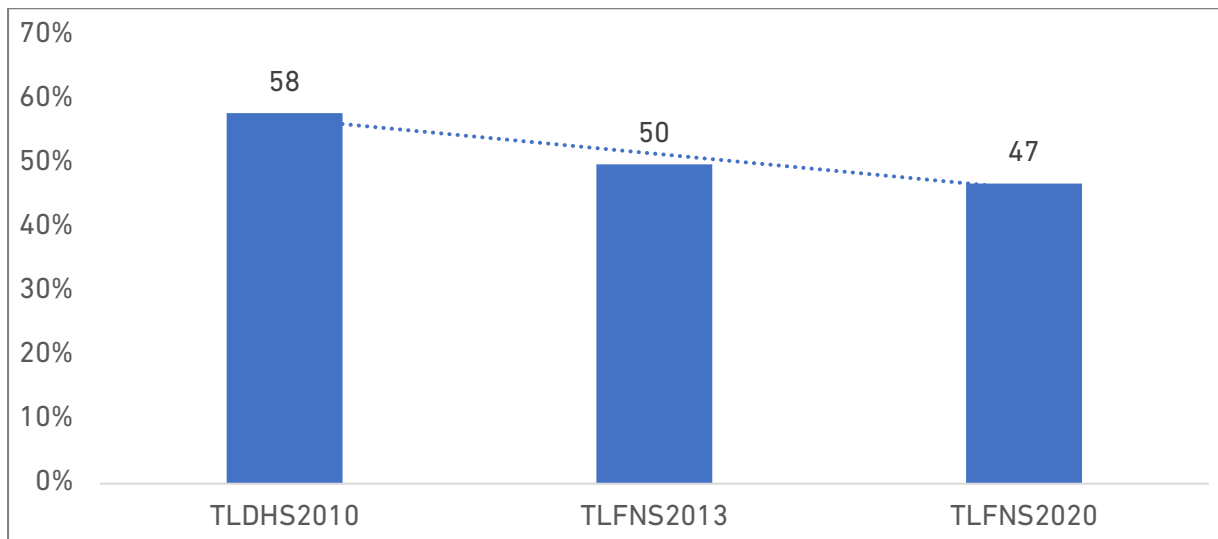
Meanwhile, investment in productive and potentially job-creating sectors, such as agriculture and tourism, which are labour intensive, remain insignificant. According to the 2019 Agricultural Census (Government of Timor-Leste, 2020b), (subsistence) agriculture has been an activity that employs 66% of Timorese households (141,100 out of 213,400 households), either engaging in crop cultivation or raising livestock and poultry within their own agricultural holdings. This represents a decline of 26.5% from the 2015 Population and Housing Census, which stood at 89.8% (183,600 out of 204,600 agriculture households) (General Directorate of Statistics, FAO, and UNFPA, 2018).

At the same time, and in addition to high levels of youth unemployment, the labour market is characterised by an excessive weight of informal employment (77.3%) in all employment, with vulnerable employment reaching very high levels (58%), resulting in low and insecure incomes and jobs without social protection. Informal employment in Timor-Leste today is comparable with the situation in Myanmar and the Lao PDR in 2017, when their rates were 84.1% and 73.4%, respectively, or the situation in Cambodia in 2012 when the rate was 90.3% (ASEAN, 2019). Women working in informal employment in Timor-Leste comprised 80.4% and men 75.3%.

### **3.4. *Nutrition and healthcare***

The nutritional status of Timorese children is one of the greatest areas of concern. According to the latest Timor-Leste Food and Nutrition Survey (Government of Timor-Leste, 2023c) (Figure 15), 47% of children under 5 years of age suffered from stunting due to chronic malnutrition. In 2022, stunting declined to 45.1% (Independent Group of Scientists Appointed by the Secretary-General, 2023) but was still higher than the average for the region (21.8%) and amongst the highest in the world. Scientific evidence has shown that malnourished children will not reach their cognitive and physical potential, which can impact badly on their educational attainment compared with those who have access to better nutrition, as well as future income when they reach adulthood.

**Figure 15: Prevalence of Stunting Amongst Children Aged 0–59 Months, 2010–2020**



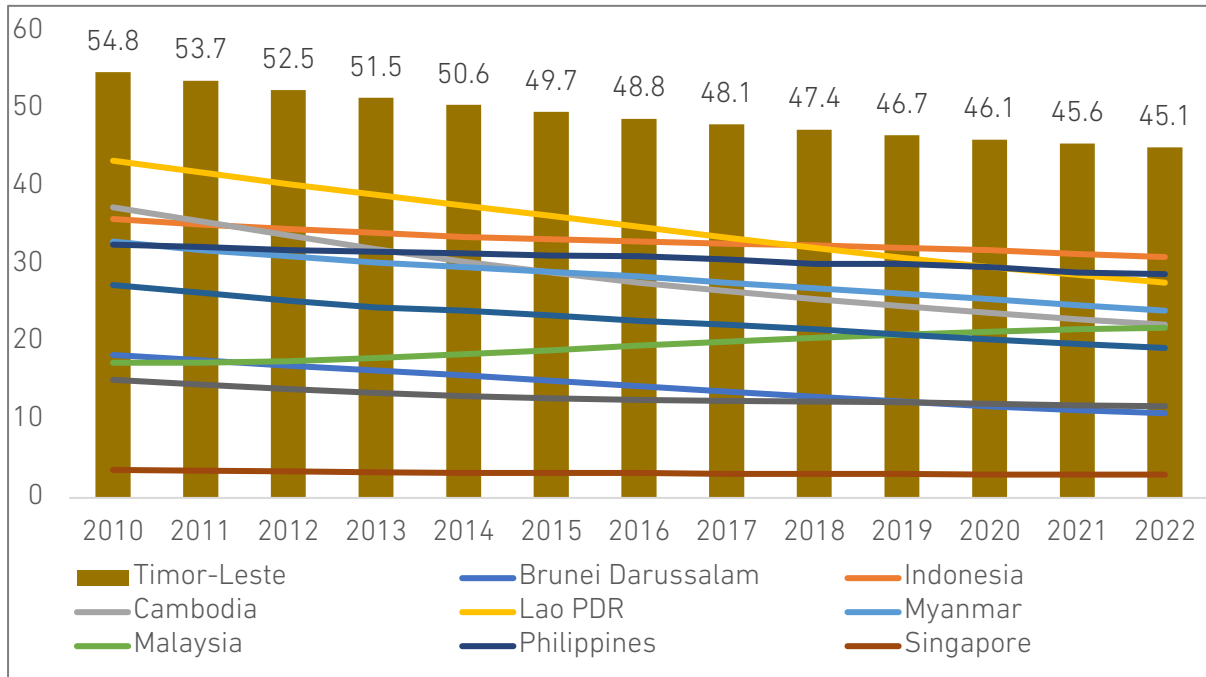
TLDHS = Timor-Leste Demographic and Health Survey, TLFNS = Timor-Leste Food and Nutrition Survey.

Sources: Government of Timor-Leste (2020c); Durraini and Bosco dos Santos (2022); and National Statistics Directorate and ICF Macro (2010).

As in most developing countries, the World Bank estimates that Timor-Leste may lose an equivalent of 2% of GDP annually because of high levels of stunting (World Bank, 2023: 29). Although the prevalence of stunting has reduced since 2010, it is still very high by international standards (>30%). The prevalence of stunting in eight municipalities (out of 13) is significantly higher than the national average of 47.1%.

Timor-Leste's rate of reduction of stunting is  $-0.9\%$  annually, compared with the average ASEAN rate of  $-1.50\%$  annually (Figure 16).

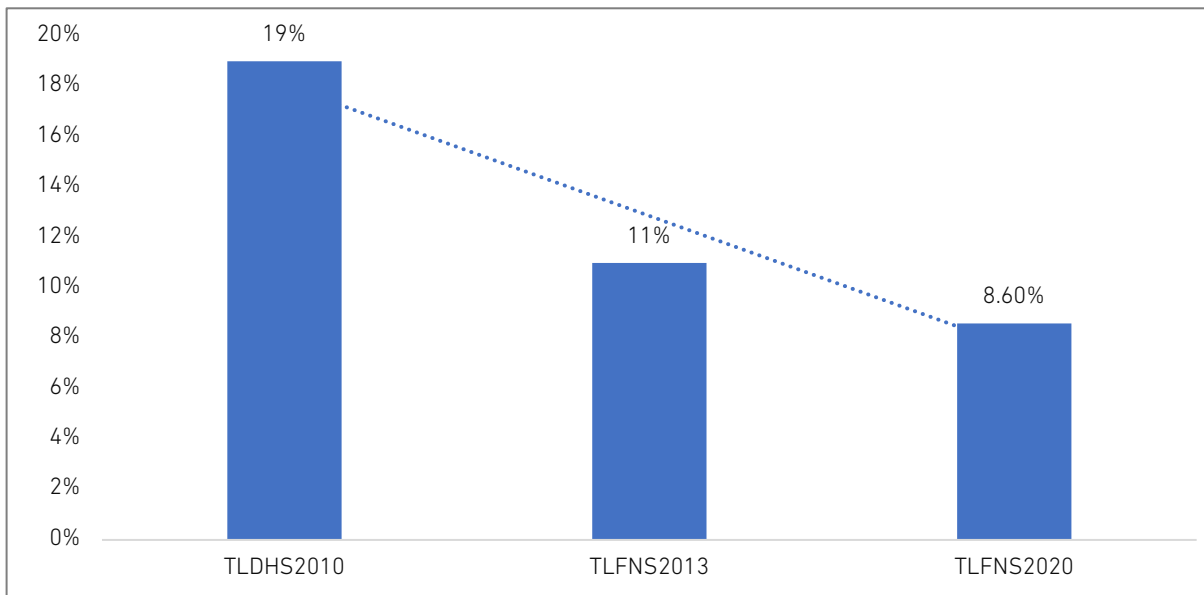
**Figure 16: Prevalence of Stunting in Children Under 5 in Timor-Leste and ASEAN, 2010–2022 (%)**



Source: Independent Group of Scientists Appointed by the Secretary-General (2023).

Wasting, which is a consequence of acute malnutrition, is another serious challenge faced by Timorese children (Figure 17). The Timor-Leste Food and Nutrition Survey 2020 estimated that 8.6% of children under the age of 5 suffered from wasting. Children with wasting have weak immune systems, which makes them vulnerable to developmental delays, disease, and sudden death if not treated properly. According to UNICEF experts, children suffering from wasting are 12 times more likely to die earlier than healthy children (Durrani and Bosco dos Santos, 2022).

**Figure 17: Prevalence of Wasting Amongst Children Aged 0–59 Months, 2010–2020**

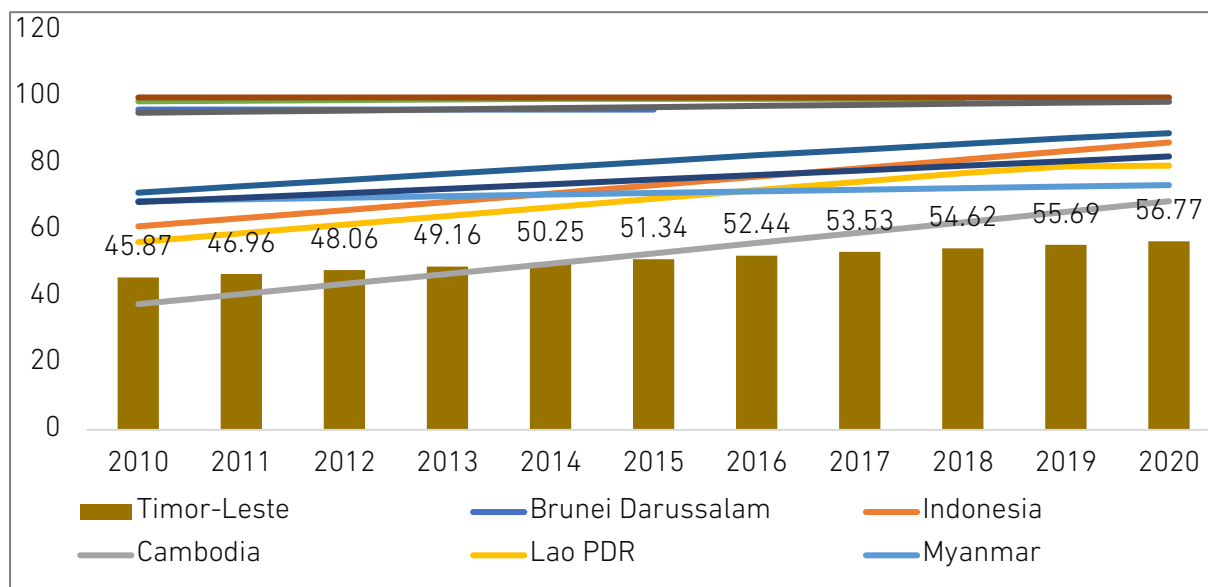


TLDHS = Timor-Leste Demographic and Health Survey, TLFNS = Timor-Leste Food and Nutrition Survey.

Sources: Government of Timor-Leste 2020c; Durraini and Bosco dos Santos (2022); and National Statistics Directorate and ICF Macro (2010).

High levels of chronic and acute malnutrition (also known as stunting) are not only linked to lack of balanced nutrients in the first 1,000 days of life – from conception to the age of 2 – but are also directly linked to poor water, hygiene, and sanitation practices, which spread diseases like diarrhoea. In Timor-Leste, there is low coverage of basic sanitation (56.77% nationally and only 44.0% in rural areas), with close to one-third of the rural population still practising open defecation. A significant gap exists in this area between Timor-Leste and ASEAN (Figure 18).

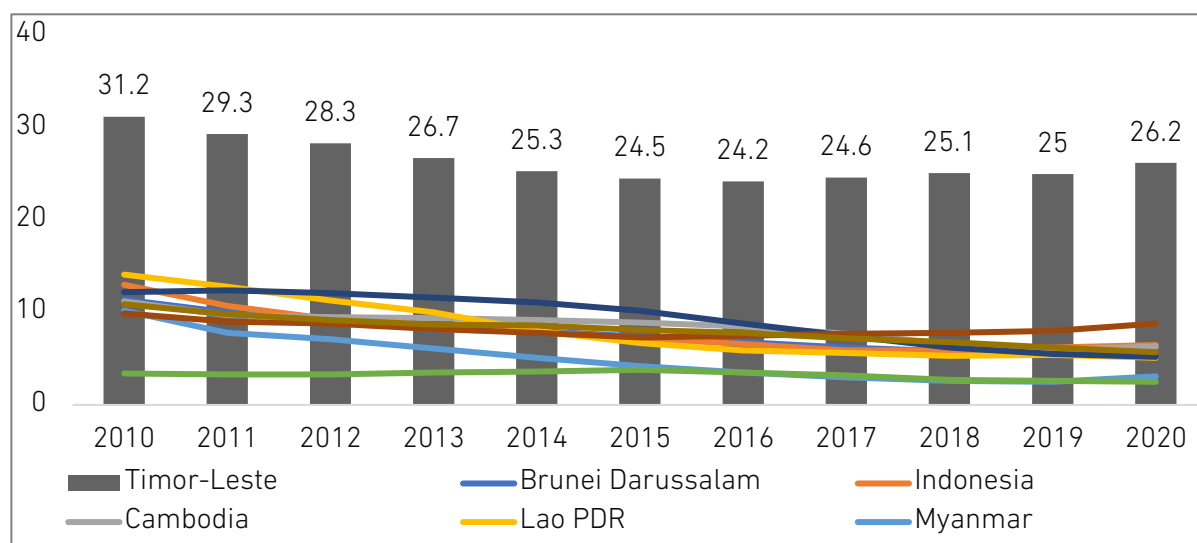
**Figure 18: Population Using at Least Basic Sanitation Services in Timor-Leste and ASEAN, 2010–2020 (%)**



Source: Independent Group of Scientists Appointed by the Secretary-General (2023).

The prevalence of anaemia amongst children under 5 years in Timor-Leste is above the standard thresholds (>40%) in all municipalities, and higher in children aged 6–23 months. A significant gap exists regarding the prevalence of anaemia in Timor-Leste and ASEAN (Figure 19).

**Figure 19: Prevalence of Undernourishment in Timor-Leste and ASEAN, 2010–2020 (%)**

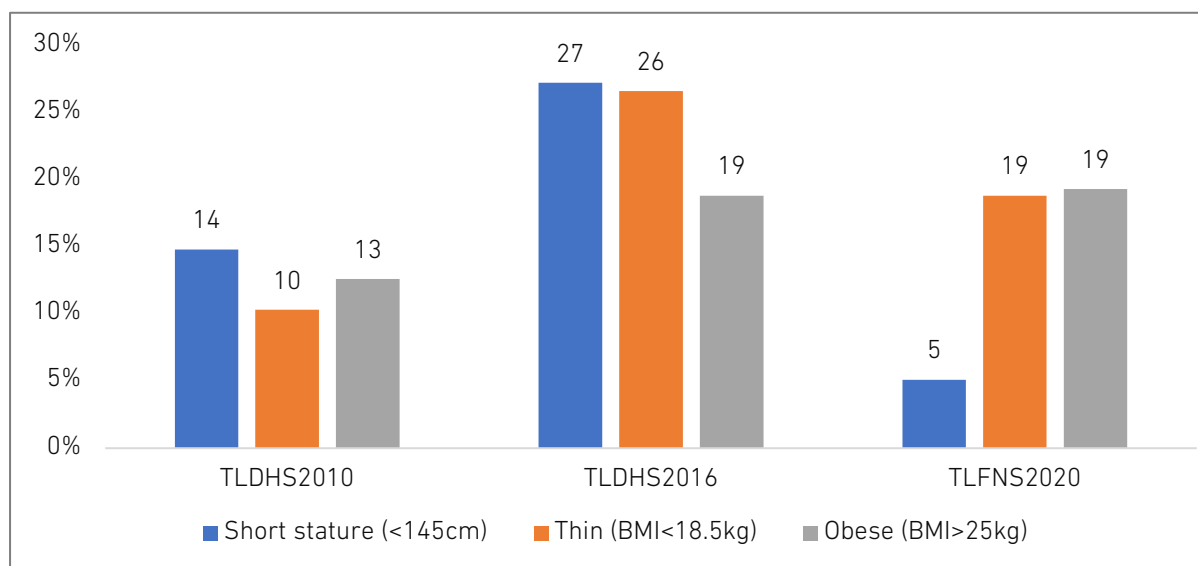


Source: Independent Group of Scientists Appointed by the Secretary-General (2023).



The nutritional status of women of reproductive age (15–49 years) has not seen significant improvements since 2010 (Figure 20). On the contrary, the share of overweight/obese women has increased by 9.5%, but more young women aged 15–19 are becoming thinner.

**Figure 20: Nutritional Status of Women Aged 15–49 Years, 2010–2020**



BMI = body mass index, cm = centimetre, kg = kilogram, TLDHS = Timor-Leste Demographic and Health Survey, TLFNS = Timor-Leste Food and Nutrition Survey.

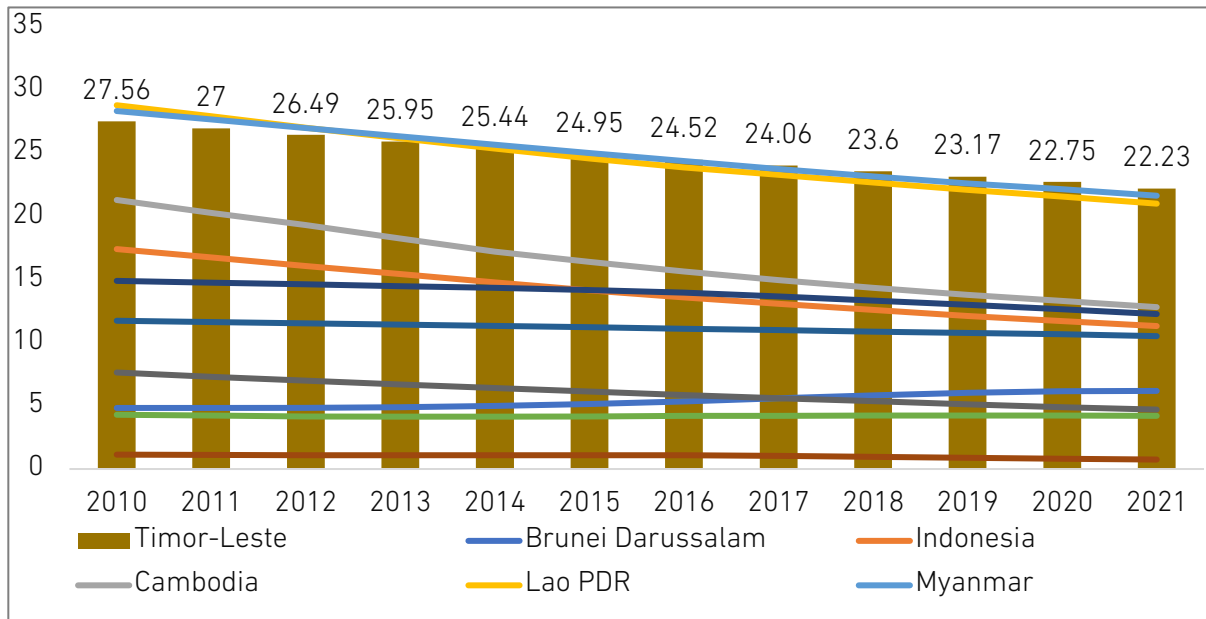
Sources: Government of Timor-Leste (2020c); National Statistics Directorate and ICF Macro (2010); and General Directorate of Statistics and ICF (2018).

Feeding practices for children aged 6–23 months are very poor. In that age cohort, 86% of children do not receive a nutritious diet, and this practice has not improved in the last decade. Some 65% of children do not receive a varied diet, and 48% are not fed the minimum number of times per day.

Undernutrition amongst adolescents and women, including mothers, is also a serious problem in Timor-Leste. About 20% of women of reproductive age are underweight and 40% are anaemic.

Part of the problem of preterm birth is due to high nutritional deficiencies, which are the leading causes of neonatal disorders, premature deaths, and infant mortality. The neonatal mortality rate is 22.2 per 1,000 live births, which is almost three times higher than the regional average, but not too far from the rates of Myanmar and the Lao PDR (Figure 21).

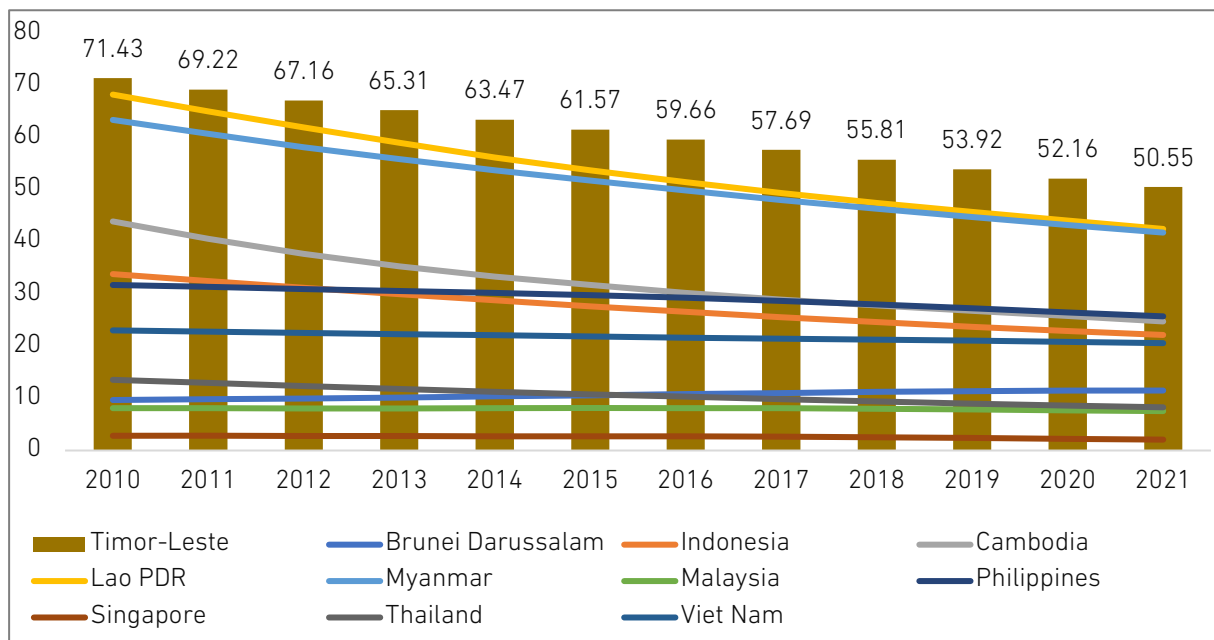
**Figure 21: Neonatal Mortality Rate in Timor-Leste and ASEAN, 2010–2021**  
(per 1,000 live births)



Source: Independent Group of Scientists Appointed by the Secretary-General (2023).

The infant mortality rate remained high, at 50.5 per 1,000 live births in 2021, which remains much higher than in ASEAN (Figure 22).

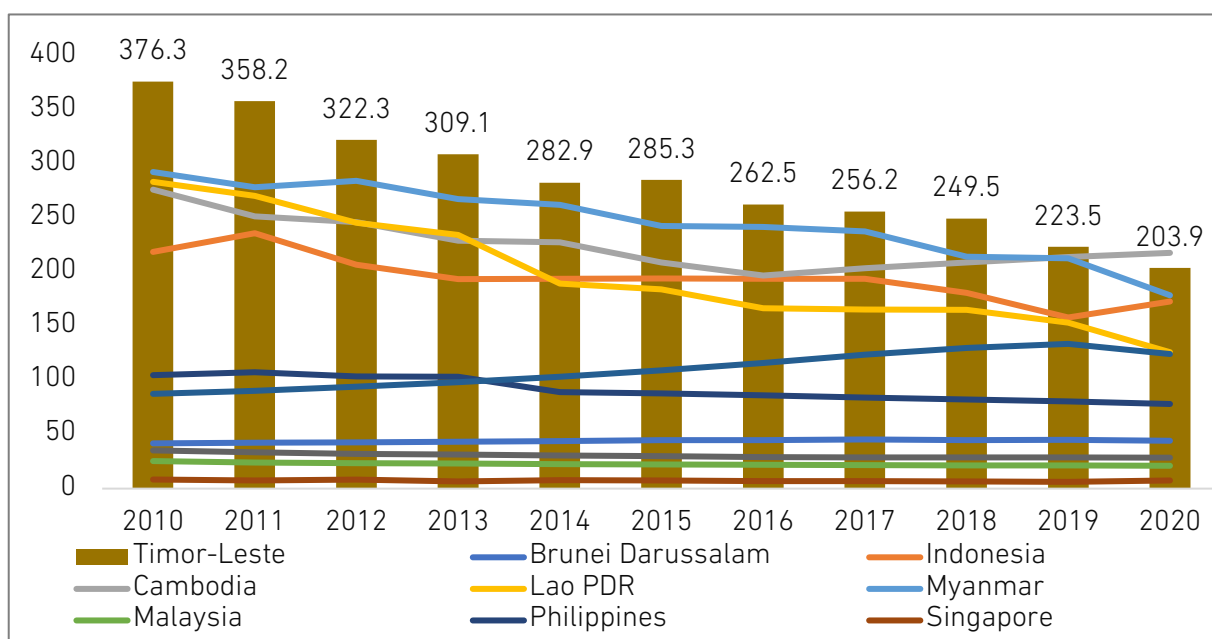
**Figure 22: Under-Five Mortality Rate in Timor-Leste and ASEAN, 2010–2021**  
(per 1,000 live births)



Source: Independent Group of Scientists Appointed by the Secretary-General (2023).

The maternal mortality rate has seen some progress in Timor-Leste over the last decade, but its rate is comparable to the highest rates in ASEAN, with only 57% of births being attended by qualified health professionals. Timor-Leste’s maternal mortality rate in 2020 was marginally better than in Cambodia (Figure 23).

**Figure 23: Maternal Mortality Rate in Timor-Leste and ASEAN, 2010–2020**  
(per 100,000 live births)



Source: Independent Group of Scientists Appointed by the Secretary-General (2023).

Timor-Leste’s healthcare system is predominantly publicly financed and provides free health services. More than 90% of healthcare expenditures are made by the state. Between 2014 and 2022, the allocation to health expenditure almost doubled, rising from US\$67 million in 2014 to US\$114 million in 2022. Yet, the healthcare system still faces significant challenges due to a lack of well-developed public institutions and weak human capacity because of poor education standards. The COVID-19 pandemic exposed various limitations in terms of facilities, equipment, and the number of healthcare providers. Because of low (labour) productivity and increased health costs, it is estimated that about US\$40 million are lost every year. Not only that, but the low quality of healthcare, which is an important element of human capital development, undermines the quality of life.

### 3.5. Education

Timor-Leste must build its education system from scratch – including the infrastructure, a curriculum based on language inclusion (Portuguese, Tetum, and local languages), the

regulatory framework, and the recruitment and training of teachers – to ensure education service delivery in the country from preschool to post-secondary education levels.

In the past 2 decades, progress has been made in some educational outcomes. For example, adult literacy increased from 38.0% in 2001 to 69.9% in 2020, though still far below Cambodia (80.5%) and the Lao PDR (84.7%). Similarly, literacy amongst young people aged 15–24 was 85.0% in 2019, which was seven percentage points lower than that of the Lao PDR (92.5%). The gross enrolment rate in pre-primary education in 2018 was 20.4%, which was 2.4 times higher than Myanmar (8.5%), but lower than Cambodia (33.6%). The net enrolment rate in primary education in Timor-Leste was 92.0%, which was higher than Cambodia (86.5%) and the Philippines (91.2%). The net enrolment rate in lower secondary education in Timor-Leste was 59.0% in 2018, lower than any AMS. Meanwhile, Timor-Leste's gross enrolment in tertiary education in 2018 was 35.0%, which was higher than Cambodia and the Lao PDR (13.0%) and Myanmar (18.8%).

Timor-Leste has 1,811 schools, including 374 preschools, 1,282 basic education schools, 155 secondary schools, and 11 post-secondary institutions. The basic education schools make up 70% of the education system, and 85% of them are public schools. The private sector, primarily the Catholic Church, plays a larger role in preschool and secondary schools, where the share of public schools falls to over 60% (World Bank, 2023: 83–85).

Although the Strategic Development Plan, 2011–2030 affirms the importance of education and training in improving well-being and enlarging opportunities to reach full potential, 'poor student learning outcomes continue to be a challenge' (World Bank, 2023: 85). For example, the 2018 national exam results for Grade 9 revealed that less than half of all students had learned at least 50% of the required material. Low learning outcomes can be attributed to inadequate teaching and learning conditions and insufficient qualified teachers. According to the World Bank (2021b), the Early Grade Reading Assessment carried out in 2017 showed that 31% of the students were unable to identify a word at the end of Grade 2. The Curriculum-based Assessment showed that 50% of students did not understand the curriculum.

Repetition and dropout rates remain very high by international standards due to student absenteeism and a low preschool net attendance rate. But the main determinant factor of inadequate learning outcomes is poverty, which often causes illness, long travel distances, and physical weakness because of undernourishment.

Although enrolments in the secondary and tertiary levels have expanded considerably, there is concern about the quality of graduates. In 2019, 68,600 students were enrolled in

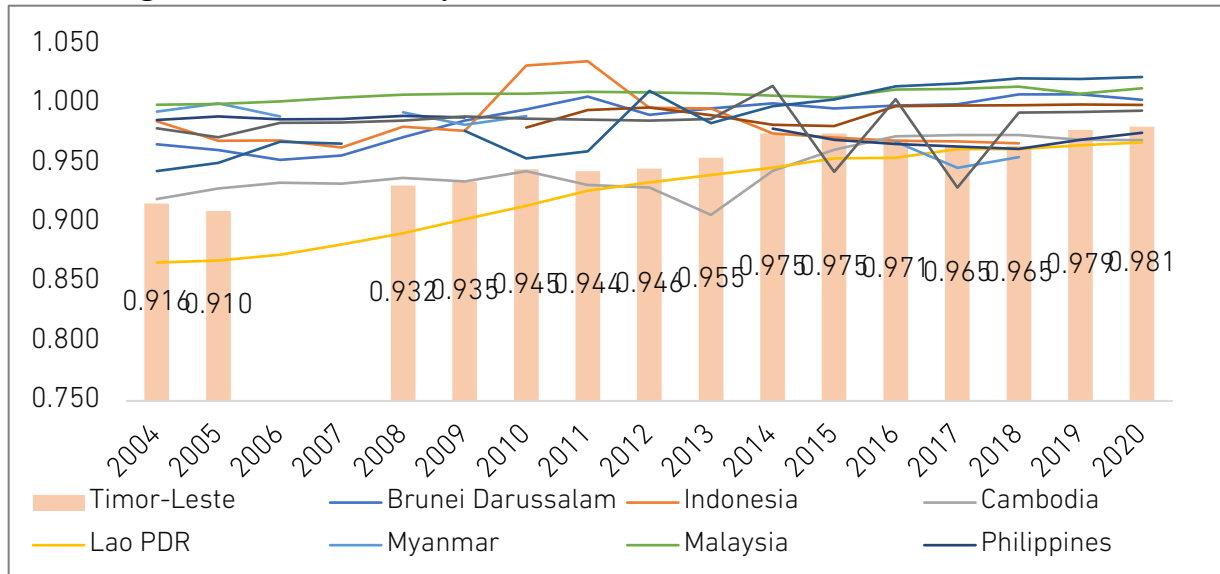
14 accredited higher education institutions, with about 1,990 teachers. Children from poorer families are less likely to be enrolled, especially in secondary and higher education levels and, if they attend, classrooms are often overcrowded.

### **3.6. Gender equality**

Overall, Timor-Leste performs relatively well in global indexes on gender equality, according to the Global Gender Gap Report 2022. It ranks 55th in economic participation and opportunity, 95th in educational attainment, 66th in health and survival, and 55th in political empowerment. The countries registering the highest level of gender parity in the region are New Zealand (84.1%), the Philippines (78.3%), and Australia (73.8%), while Fiji (67.6%), Vanuatu (67.0%), and Japan (65.0%) have more progress to make. The countries in the region that have improved the most since 2021 are Vanuatu (67.0%, up 4.5 percentage points) and Timor-Leste (73.0%, up 1.0 percentage point). Only four countries have closed the gender gap on the share of women in parliamentary positions by at least one percentage point: in order of magnitude of improvement, Viet Nam, Timor-Leste, New Zealand, and Indonesia (World Economic Forum, 2022).

In terms of the Gender Parity Index's gross enrolment ratio in primary education, which is the ratio of girls to boys enrolled at primary level in public and private schools, Timor-Leste has progressed relatively well and, at times, better than the Lao PDR, Myanmar, Cambodia, Thailand, and the Philippines (Figure 24). In 2020, Timor-Leste recorded the highest index at 0.981, better than the Lao PDR, the Philippines, and Cambodia (Figure 24).

**Figure 24: Gender Parity Index for Timor-Leste and ASEAN, 2004–2020**



ASEAN = Association of Southeast Asian Nations.

Source: Author based on World Bank (n.d.-a), School Enrollment, Primary (gross), Gender Parity Index (GPI) – Timor-Leste. <https://data.worldbank.org/indicator/SE.ENR.PRIM.FM.ZS?locations=TL> (accessed 9 January 2024).

However, discrepancies persist in terms of gender in Timor-Leste (World Bank, n.d.-a). For example, 95.1% of girls and 88.0% of boys had completed lower secondary education in 2020. The female rate is nearly the same as countries in East Asia and the Pacific, but higher than some AMS. The completion rate of lower secondary education indicates the number of children who have completed the last grade of lower secondary education regardless of the age when completed.

Regarding the adult literacy rate,<sup>10</sup> 66.5% of women in Timor-Leste were literate compared with 73.3% of men in 2020 (World Bank, 2021b: 115–131).

Discrepancies are also visible regarding labour force participation in 2022 amongst the population aged 15–64, where 61.5% of economically active women participated against 72.3% of men. The low participation rate amongst women has remained unchanged in the last 2 decades (2002–2021). In addition, the 2021 LFS showed that 49.5% of women’s employment is concentrated in two occupations – field crop and vegetable growers (25.8%) and stall and market salespersons (23.7%), compared with 17.9% and 10.9% of men in the respective occupations. More women (45.7%) than men (33.9%) were employed in the informal sector.

<sup>10</sup> The adult literacy rate refers to the percentage of people aged 15 years and above who can read and write a short and simple statement about their everyday life.

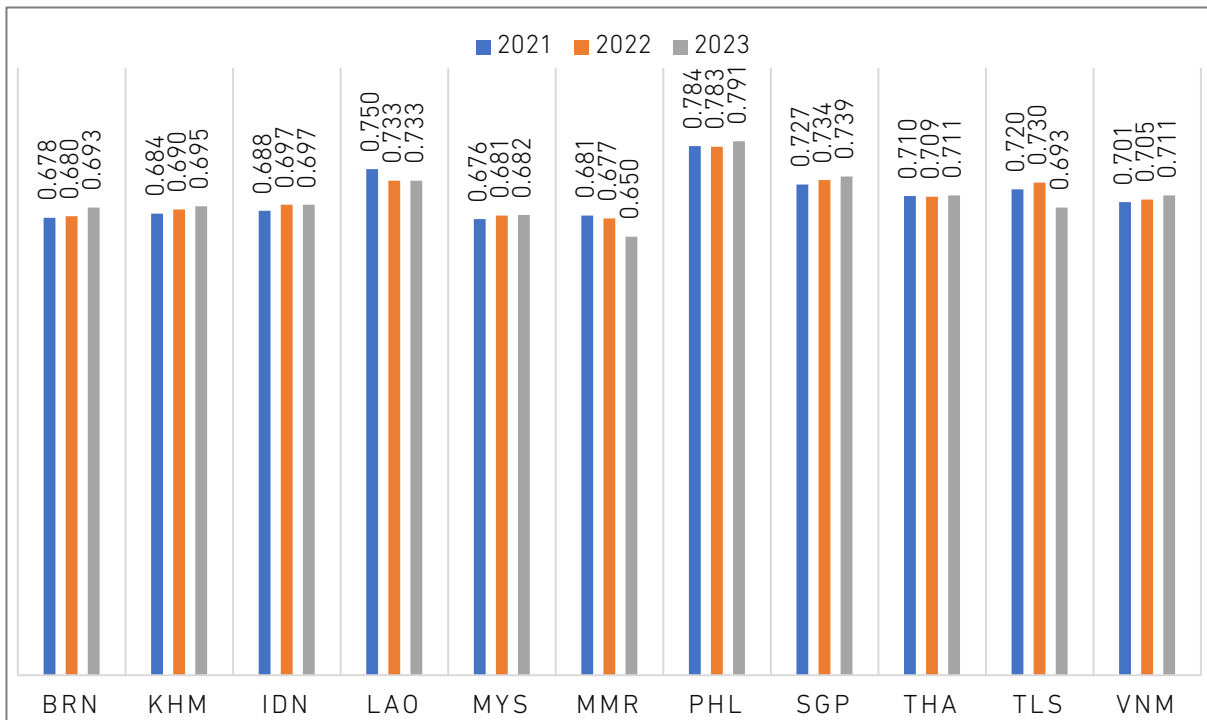
Women in Timor-Leste also had higher rates of participation in vulnerable employment – with no formal contract arrangement, social protection, or safety net coverage to protect them from economic shocks, making workers vulnerable to falling into poverty. Women comprised 78.4% of workers in such jobs, while men made up 56.9% in 2022. These rates are higher than in ASEAN.

Significant discrepancies also exist between men and women regarding average monthly wages. For example, women receive 40.4% less than men as craft and related trade workers (e.g. mining and construction, fitting, machinery maintenance and repair, equipment and tools, printing, production, and foodstuff processing), 38.5% less as managers, and 28.4% less as technicians.

One indicator in which Timor-Leste performs well is the percentage of women's representation in the National Parliament, where women held 40% of seats in 2022. This is not related to cultural issues; it reflects the Timorese people's determination to improve gender equality, an area that had been neglected for years, and to promote women's participation in decision-making process, including parliamentary representation.

In relation to the evolution of gender parity across four key dimensions – economic participation and opportunity, educational attainment, health and survival, and political empowerment – Timor-Leste presented an index of 0.693 in 2023, positioning the country in 95th rank. This was above Malaysia (0.682) and Myanmar (0.650). However, it was a 5.1% decrease from 2022 (0.730), placing Timor-Leste as the fourth best performer in relation to all AMS. In 2021, Timor-Leste retained this position, with an index of 0.720 (Figure 25).

**Figure 25: Global Gender Index for Timor-Leste and ASEAN, 2021–2023**



ASEAN = Association of Southeast Asian Nations.

Source: World Economic Forum (2022, 2023).

### 3.7. *Living conditions*

Although Timor-Leste has seen some progress in various dimensions of human development, much more needs to be done to fulfil the constitutional requirements and the targets set in the Sustainable Development Goals (SDGs). Disparities remain between the capital Dili and the rest of the country, as well as within the regions. In 2018, for example, 33.4% of the urban population still lived in slums or informal settlements without proper housing facilities. The situation in Timor-Leste is much better compared with Cambodia (45.6%), Myanmar (57.1%), and the Philippines (44.3%). In 2020, 85% of the population had access to drinking water (96% in urban areas and 80% in rural areas), compared with 28.0% in Cambodia, 18.0% in the Lao PDR, 59.0% in Myanmar, and 47.0% in the Philippines. Until 2020, access to sanitation has remained a challenge in Timor-Leste, as only 57.0% of the population had access to such services (74.0% in urban areas and 49.0% in rural areas). This is substantially below levels in all other AMS. In 2022, 96.0% of the population had access to electricity (100% in urban areas and 94.0% in rural areas). The situation in Timor-Leste is better than in Cambodia (86.4%) and Myanmar (70.4%).



### **3.8. Social safety nets**

Free and universal healthcare and education systems were established immediately after the restoration of Timor-Leste's independence in 2002. Broad-based, non-contributory social programmes were only established in 2007 and 2008 in response to the civil unrest of 2006, when it was possible to allocate permanent financial resources for non-contributory social benefits.

Thus, in 2008, the first monetary social protection measure was approved, which constitutes the first level of protection (social protection floor, as advocated by the International Labour Organization), as a social benefit that guarantees basic income security to older persons and people with permanent and definitive incapacity for work.

In the same vein, the Bolsa da Mãe programme was approved in 2012, which also takes the form of a cash social benefit, aimed at vulnerable families with children. Other social assistance programmes subsequently emerged, targeting specific vulnerable groups such as victims of natural disasters or victims of domestic violence and gender-based violence.

The cash benefits aimed at older persons and vulnerable families with children were the most significant, from the point of view of their importance in combating poverty. Despite this, in the case of the Bolsa da Mãe programme, both the coverage rate and the amount of the benefit fall short of what is necessary to have a real impact on reducing child poverty. In relation to older persons, the data show that the high coverage, scope, and adequacy of the provision allowed it to have an impact on reducing poverty and improving the level of well-being of the most vulnerable older persons. Even so, the amount of this non-contributory benefit for older persons – despite the recent upward revision – remains low, meaning new studies are needed to understand whether the impact on poverty reduction is consistent. On the other hand, the increase in the amount of social pensions may have to be accompanied by an increase in the minimum wage, it will constitute a disincentive to work and contribute to the contributory social security scheme.

In general, despite the expansion of non-contributory social security programmes, and especially social assistance, their adequacy, coverage, and scope are still limited.

According to the World Bank (Rezza et al., 2022: viii), 'Timor-Leste has one of the highest rates of social protection spending in the developing world, but with limited impact on poverty and vulnerability'. In 2019, social protection received an equivalent of 7.0% of the non-oil GDP. For comparison, the average for Asian countries was 5.2%. Compared with ASEAN, Timor-Leste still had the highest rate (7.0%), followed by Viet Nam (6.7%), Thailand (5.3%), Singapore (4.6%), Malaysia (3.6%), the Philippines (3.1%), Indonesia (2.1%), the Lao

PDR, and Cambodia (1.1%), while the rest of the countries had rates below 1.0% (ADB, 2022b).

An imbalanced distribution of financial allocations has led to large disparities in the level of social protection offered to the population. For example, more than 60% of the expenditure on social protection is allocated to the Veterans Pension, which has only 28,000 beneficiaries. More than US\$1 billion has been spent on the Veterans Pension over the last decade for a small section of the population. The generous rules for inheriting veterans' entitlements could lead to growing inequality between the families of veterans and non-veterans. Furthermore, the number of veterans will quadruple in the coming months, implying a significant increase in public spending.

This analysis of the high expenditure on social protection in Timor-Leste is therefore affected by investment in special programmes to support former combatants and martyrs of national liberation (normally referred to as veterans) and their families. These programmes essentially aim to recognise and value the role of veterans in the independence of Timor-Leste, compensating them for their services provided to the country. Therefore, without prejudice to the fact that they provide social support, they are not general social protection measures, in the sense that they have very particular objectives and are aimed at a specific group rather than the population in general. In this sense, and because the amounts of the programmes aimed at veterans are particularly generous, it is preferable to analyse the evolution of the social protection system in Timor-Leste excluding the effects of those special programmes.

Excluding the Veterans Pension, social protection spending in Timor-Leste corresponds to the ASEAN average of about 3% of GDP.

Even though this is in line with what is happening in AMS, the impact on poverty has not been as significant as expected. And if, on the one hand, investment in non-contributory social programs must be increased to achieve better levels of well-being, on the other hand, they still depend on the State Budget, which can threaten fiscal sustainability in the long term.

In addition to the non-contributory social security and social assistance schemes, Timor-Leste's social protection system has had a social security (contributory) scheme since 2016, financed by social contributions from workers and their employers. This regime constitutes the second level of social protection, targeting those who work and contribute to the national economy, and already includes protection against some of the main social risks – advanced age, disability, death (survival), and maternity/paternity.

It is a mixed social insurance scheme, which includes a defined-benefit model, based on principles of inter-generational solidarity, associated with the public capitalisation of annual

surpluses,<sup>11</sup> with a view to guaranteeing the future self-sustainability of the scheme. Reserves are set up annually (the surplus between the contributory income received and the contributory social benefits paid) and managed in capitalisation, based on specific criteria and balancing the maximisation of profitability with the minimisation of risk – the security of investments with guaranteeing liquidity. The Social Security Reserve Fund<sup>12</sup> is therefore the guarantee of the sustainability of the contributory regime, without having to depend on transfers from the state.

This contributory regime should be increasingly comprehensive in coverage to remove people from non-contributory regimes. This is not only for sustainability reasons, but also to promote decent work and to guarantee greater levels of protection, which contribute to reducing poverty and increasing human dignity and well-being. In fact, and despite the enormous growth seen in recent years in the number of workers registered under the contributory social security scheme (134,039 workers in 2022, which represents growth of almost 160% in 6 years (Social Security Portal, n.d.)), coverage is still limited, which is mainly due to the large numbers of informal workers.

In the area of social protection, Timor-Leste has taken very significant steps in recent years, essentially after the creation of the contributory social security regime. The approval of the National Social Protection Strategy, 2021–2030 systematised the social protection system, allowing the creation of goals and the design of concrete strategies to achieve the defined objectives: (i) reduce poverty, (ii) improve and expand workers' social security, and (iii) promote institutional development.

The Timorese social protection system offers a range of programmes, including broad-based cash transfer schemes, social services to vulnerable groups, and free public health and education services, but with limited impact on poverty.

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<sup>11</sup> In practical terms, the insurance model adopted by Timor-Leste is based on inter-generational solidarity – i.e. all workers contribute to a common portfolio, which is the source of benefits to which contributing workers are entitled during their working lives (maternity/paternity) as well as the pensions of retirees. This model is premised on workers in the future guaranteeing current contributors the same rights. To achieve this, the contribution rate applied is higher than what would be strictly necessary to pay the current annual benefits, so a surplus is created annually (between the contribution income received and the expenses with social benefits paid), i.e. reserves are created. These reserves constitute the Social Security Reserve Fund and are capitalised in the financial markets with a view to making them profitable, so that they can finance pensions when the annual contributory income is insufficient to pay annual social benefits.

<sup>12</sup> According to data available in the General State Budget Books for 2024, the global amount of the Social Security Reserve Fund at the end of 2023 was about US\$200 million, which represents an increase of 32% in relation to the balance calculated at the end of 2022, and US\$183 million more than the initial value of the fund.

### **3.9. Access to finance**

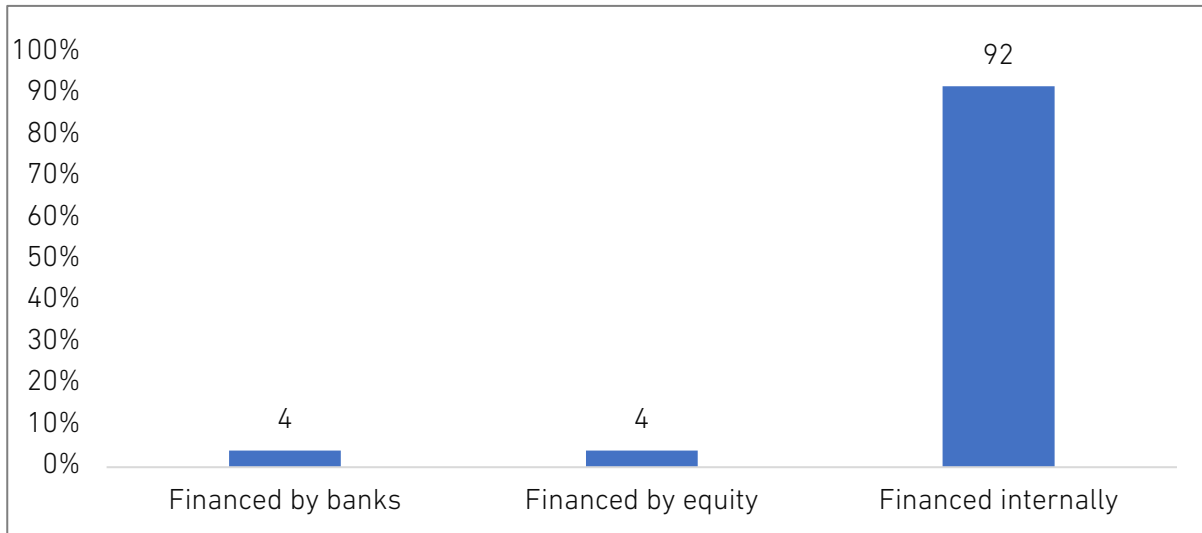
The financial system in Timor-Leste comprises the Banco Central de Timor-Leste (BCTL), four international banks,<sup>13</sup> one state-owned bank (Banco Nacional de Comércio de Timor-Leste), two microfinance institutions, two general insurance companies, nine money transfer operators, and 27 credit unions. The banking sector controls 97.2% of the financial sector assets in Timor-Leste and more than 90% of the customer base, leaving the rest to microfinance institutions (Rezza et al., 2024: 24). The international banks primarily serve international organisations and their staff, as well as businesses owned by foreigners working in the country. The only national bank (Banco Nacional de Comércio de Timor-Leste), which is smaller than the international banks, has the widest outreach, serving all Timorese nationals. Timor-Leste does not have equity or bond markets, and the government has yet to issue bonds. Less than 2% of the population is insured in Timor-Leste (ADB, 2019).

One of the top business environment constraints in Timor-Leste is access to finance (World Bank, 2021a). In more developed financial markets, payment services are provided, deposits are mobilised, and funding for the purchase of fixed assets is facilitated. Fixed assets include buildings, machinery, land, and equipment, which serve as working capital. In efficient financial markets, firms that are creditworthy have access to a broad range of lenders and investors. In Timor-Leste, businesses tend to rely on the internal funds of informal sources, including personal networks, non-bank financial institutions, personal savings, or family and friends (Figures 26 and 27).

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<sup>13</sup> Banco Nacional Ultramarino (Portugal), ANZ Bank (Australia), Bank Mandiri (Indonesia), and Bank Rakyat Indonesia (Indonesia).

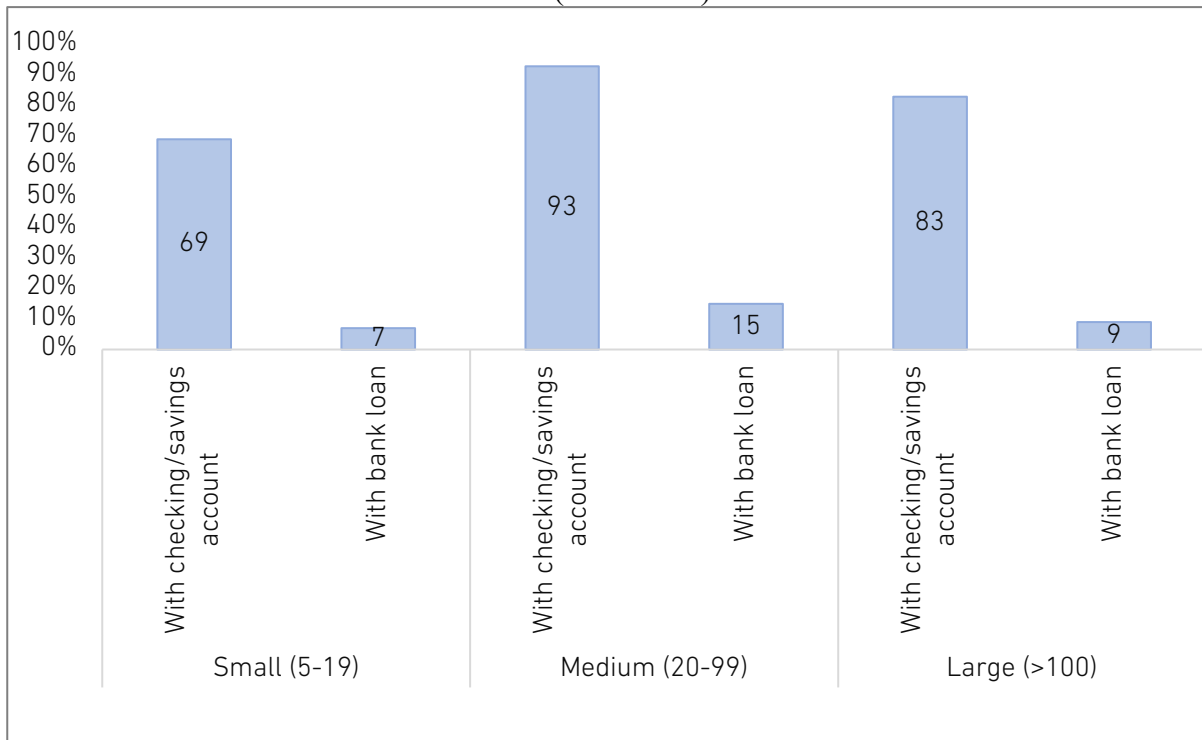
**Figure 26: Sources of Financing for Acquisition of Fixed Assets, 2021**  
(%)



Source: Author based on World Bank (2021a: 7).

Private firms' heavy reliance on internal funds for purchasing fixed assets or to help manage their liquidity and payments may be an indication that financial intermediation remains inefficient.

**Figure 27: Use of Financial Services, 2021**  
(% of firms)



Source: Author based on World Bank (2021a:7).

The Financial Inclusion Report 2022 of BCTL (2023) revealed that 64% of the Timorese adult population used financial services in 2022. In terms of gender, more women (65%) tend to use financial services than men (62%). Likewise, 10% of women tend to use other deposit-taking institutions, compared with only 2% of men. According to the report, men are more likely to use e-wallets (27%) than women (18%).

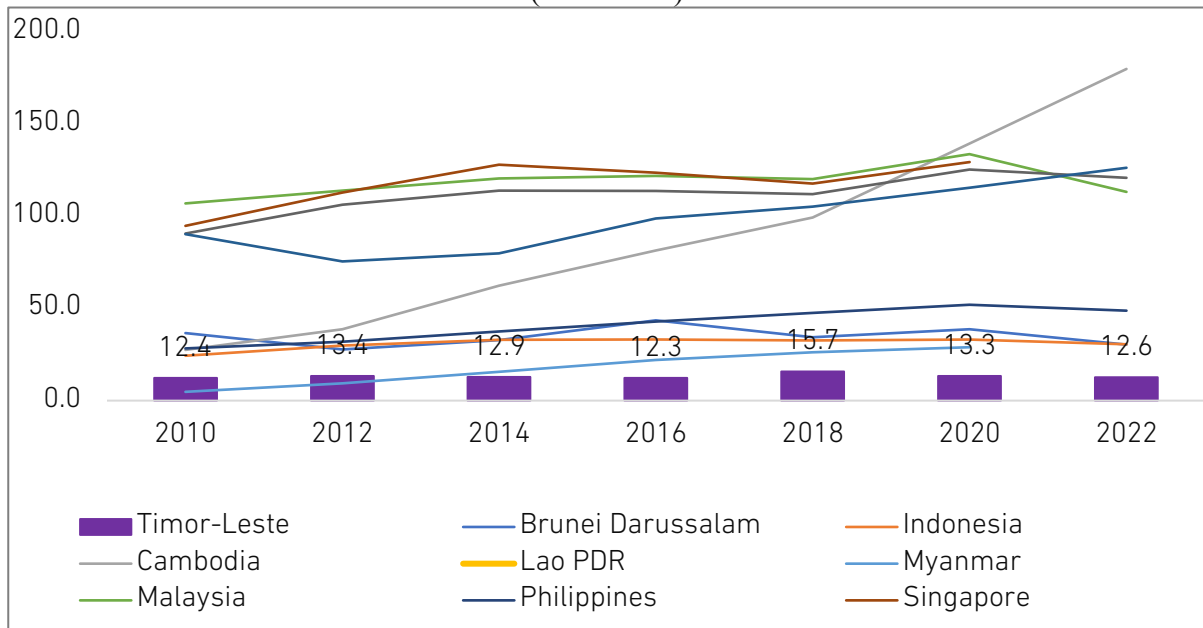
The report also shows that 603 commercial bank access points were established in 2022, mainly in urban areas due to internet access. Only the capital Dili, Liquiçá, and the island of Ataúro have 100% coverage, while the least covered municipalities are Ermera and Manufahi. In 2022, 1,534 other deposit-taking institutions were established in the whole territory, and 4,199 e-wallet access points now cover all administrative posts and most villages in the country.

While the proportion of adults with access to a deposit account reached 64%, the number of adults excluded from the financial system declined from 32% to 16% during 2016–2020. This decline is largely due to the rapid increase in e-wallet services.

Microfinance institutions play an important role in improving access to loan and deposit services, especially for women. However, financial inclusion remains challenging in non-urban areas: access points are mainly located in urban areas due to limited internet access; financial products and services are neither user-friendly, convenient, nor affordable; and financial literacy and adequate consumer protection frameworks are missing.

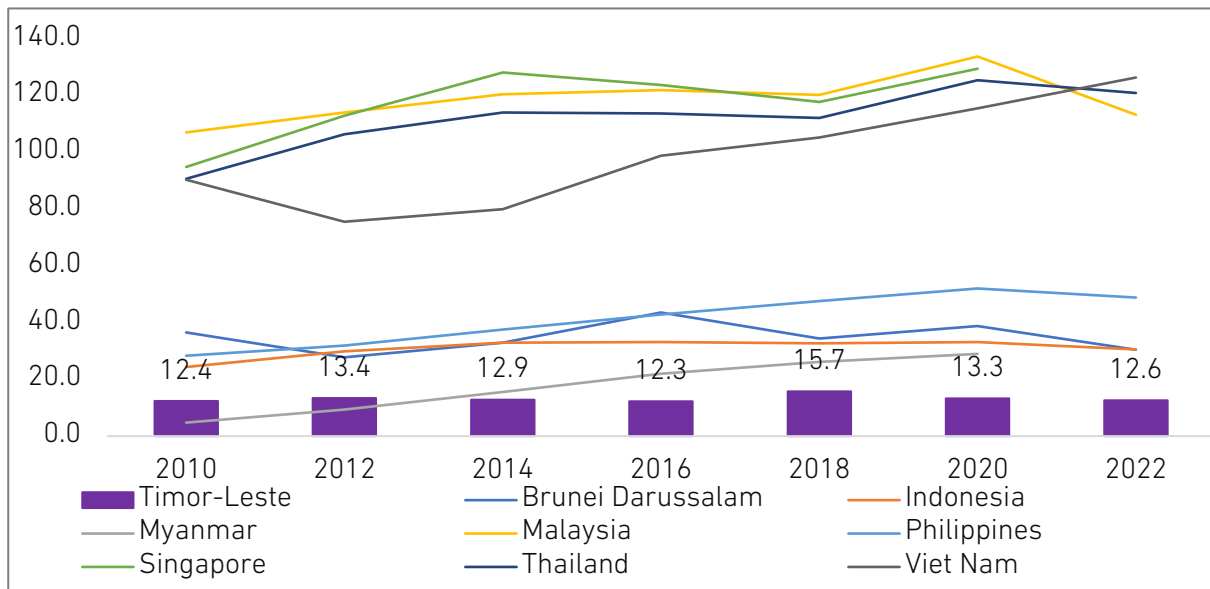
The finance sector is limited in size and diversity, with basic digital payment systems, few non-financial institutions, and no capital market. Private sector credit is still limited. In 2022, credit to the private sector was equivalent to 12.6% of the country's GDP (Figure 28). Timor-Leste had the lowest average credit to private sector ratio in 2020, at 13.3%, compared with the ASEAN average of 82.2%, and it is half of the ratios of Myanmar (29.0%), Indonesia (30.6%), and Brunei Darussalam (30.4%). As noted previously, Timor-Leste's low ratio of private sector credit as a share of GDP is mainly due to lack of access to affordable long-term credit and insecure collateral. The latter adds to the list of lending risks. Both land and property rights remain a challenge in Timor-Leste (Figure 29).

**Figure 28: Domestic Credit to Private Sector by Banks in Timor-Leste and ASEAN, 2010–2022**  
(% of GDP)



ASEAN = Association of Southeast Asian Nations, GDP = gross domestic product.  
 Source: Author based on World Bank (n.d.-e), Domestic Credit to Private Sector by Banks (% of GDP). <https://data.worldbank.org/indicator/FD.AST.PRVT.GD.ZS?end=2022&start=2010> (accessed 28 December 2023).

**Figure 29: Credit to the Private Sector as a Share of GDP in Timor-Leste and ASEAN, 2010–2022**  
(%)



ASEAN = Association of Southeast Asian Nations, GDP = gross domestic product.  
 Source: Author based on World Bank (n.d.-e), Domestic Credit to Private Sector by Banks (% of GDP). <https://data.worldbank.org/indicator/FD.AST.PRVT.GD.ZS> (accessed 28 December 2023).

Indeed, critical challenges remain in the finance sector. Between 2010 and 2022, monetisation in Timor-Leste saw improvements, with the ratio of broad money (M2) to GDP reaching 46.5% in 2022, a situation that is not too far from that of Indonesia (Table 4).

**Table 4: Nominal GDP in Timor-Leste, 2010–2022**

Item	2010	2012	2014	2016	2018	2020	2022
GDP (US\$ million)	1,186	1,374	1,485	1,595	1,597	1,957	2,720
M2 (US\$ million)	295	407	600	734	849	869	1,264
M2/GDP (%)	24.9	29.6	40.4	46	53.1	44.4	46.5
Credit to private sector (US\$ million)	110	160	192	208	248	288	331
Credit to private sector/GDP (%)	9.2	11.6	12.9	13	15.5	14.7	12.1

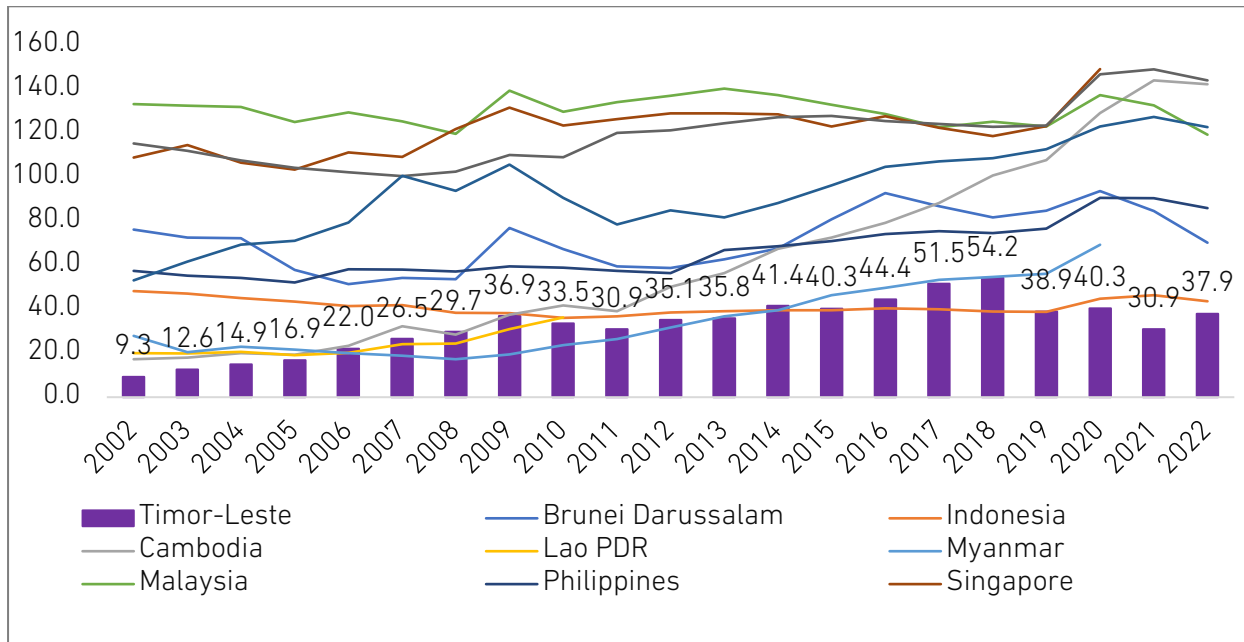
GDP = gross domestic product, M2 = broad money.

Sources: Government of Timor-Leste (2023c); and various International Monetary Fund Article IV reports.

Unlike Indonesia, however, a large portion of the transactions in Timor-Leste is still carried out on a cash basis, which makes transactions costly and often insecure (Figure 30).



**Figure 30: Broad Money in Timor-Leste and ASEAN, 2002–2022 (% of GDP)**



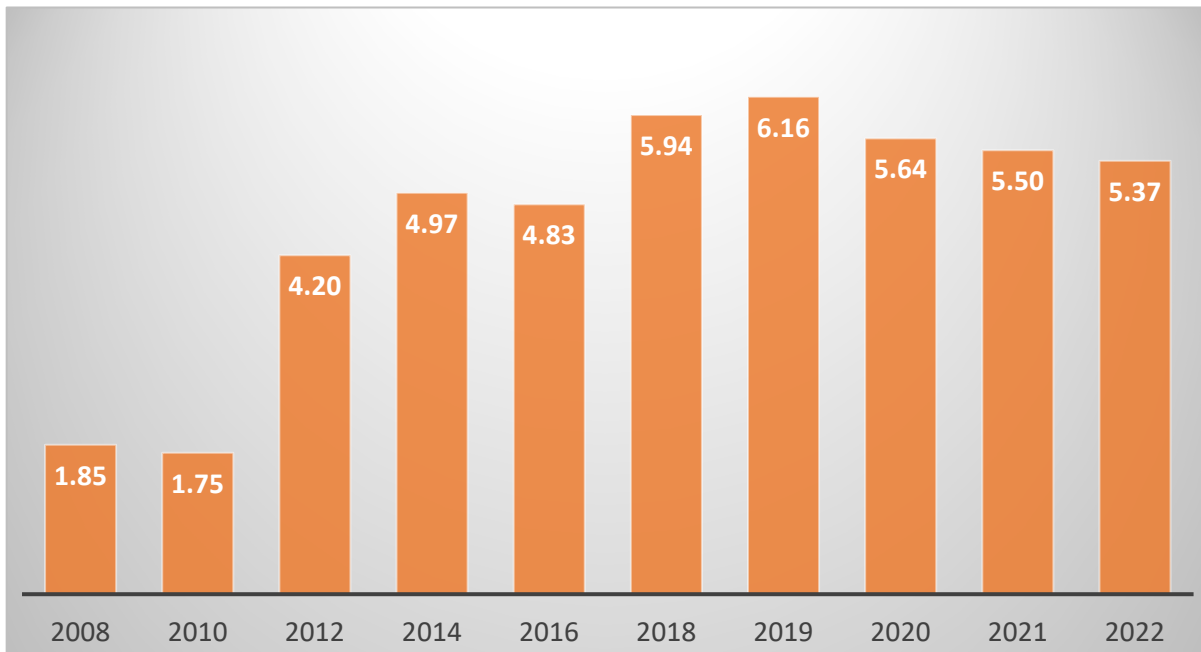
ASEAN = Association of Southeast Asian Nations, GDP = gross domestic product.

Source: Author based on World Bank (n.d.-f), Broad Money (% of GDP) – Timor-Leste. <https://data.worldbank.org/indicator/FM.LBL.BMNY.GD.ZS?locations=TL> (accessed 28 December 2023).

Given the high lending risks in the country, the international commercial banks choose to place their excess deposits offshore, using Timorese deposits to finance investment overseas. The number of depositors with commercial banks in 2022 was 656 per 1,000 adults, indicating an increase of 29% from 2018 (508 per 1,000 adults). This increase in deposit accounts was driven by a greater inflow of remittances from workers abroad and expansion in banking outreach. The aggregate outstanding deposits and loans with commercial banks as a percentage of GDP increased slightly in 2022 due to the BCTL’s policy mandating banks to increase their loan-to-deposit ratio to a minimum of 35%, or gradually increase the share of loans to micro, small, and medium-sized enterprises by December 2023 (IMF, 2022). Formal financial institutions prefer to lend money to large and well-established businesses that dependent upon government contracts, leaving medium-sized and small businesses without access to loans. The number of borrowers from commercial banks in 2022 was only 53 per 1,000 adults, although this represents a 39% increase from 2018 (38 per 1,000 adults) (IMF, 2023a).

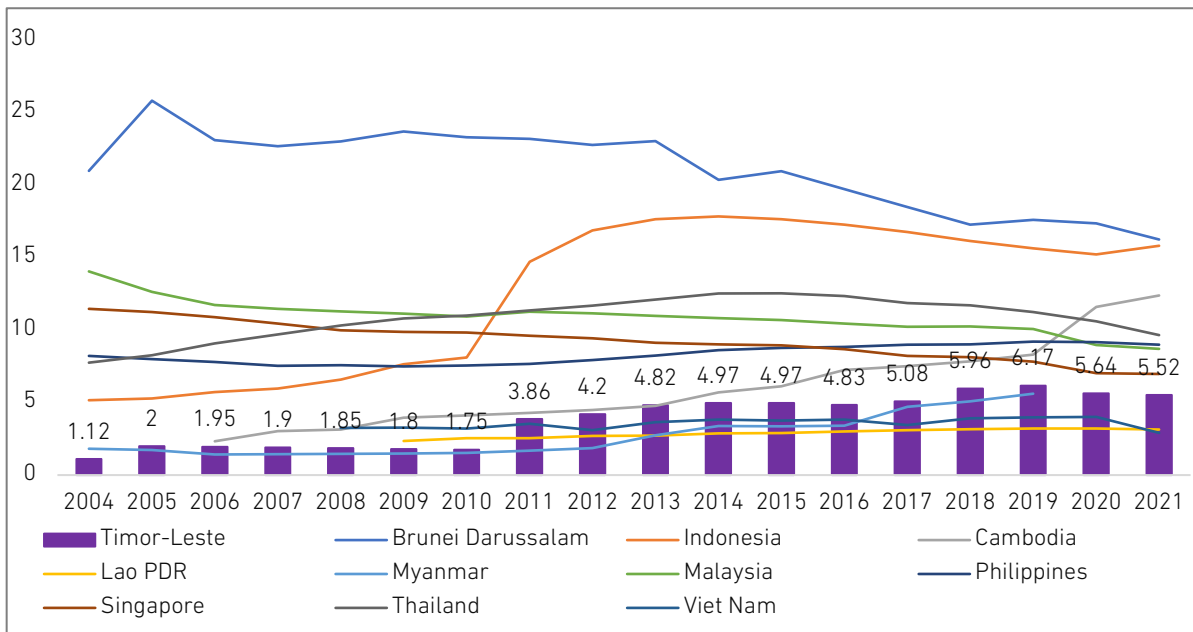
In 2022, there were about five commercial branches in Timor-Leste serving 100,000 adults (Figure 31), which is higher than in the Lao PDR and Viet Nam (Figure 32).

**Figure 31: Commercial Branches per 100,000 Adults in Timor-Leste, 2008–2022**



ASEAN = Association of Southeast Asian Nations.  
Source: IMF (2023a).

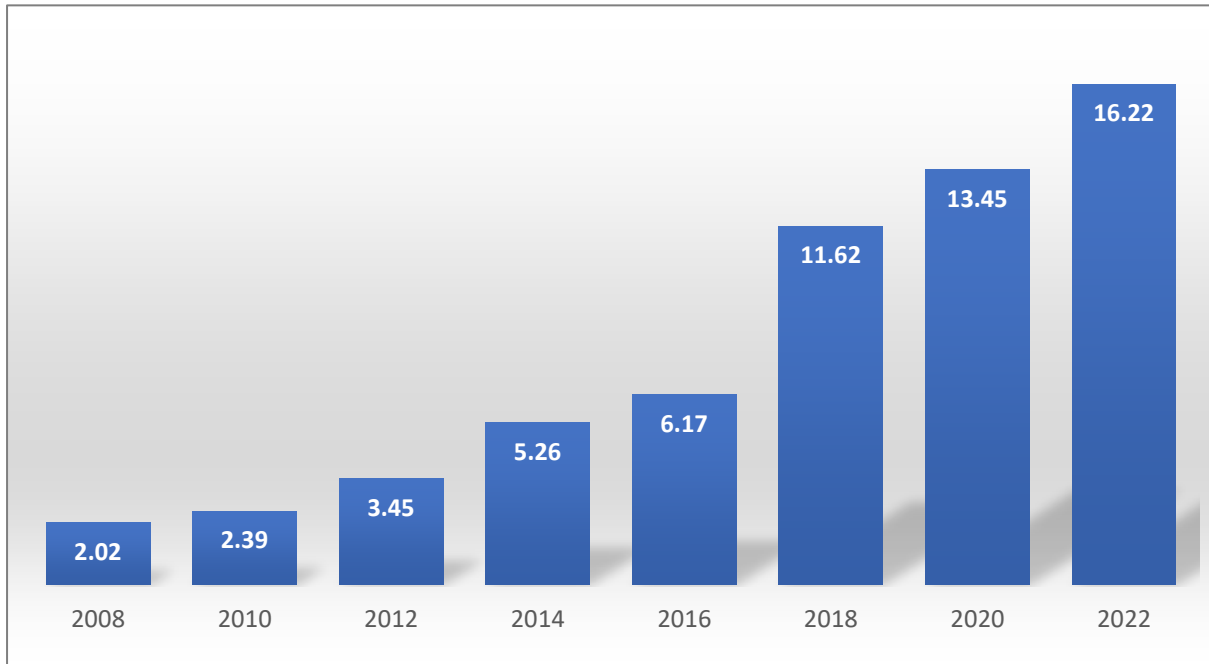
**Figure 32: Commercial Bank Branches per 100,000 Adults in Timor-Leste and ASEAN, 2004–2021**



ASEAN = Association of Southeast Asian Nations.  
Source: Author based on World Bank (n.d.-g), Commercial Bank Branches (per 100,000 adults) – Timor-Leste. <https://data.worldbank.org/indicator/FB.CBK.BRCH.P5> (accessed 28 December 2023).

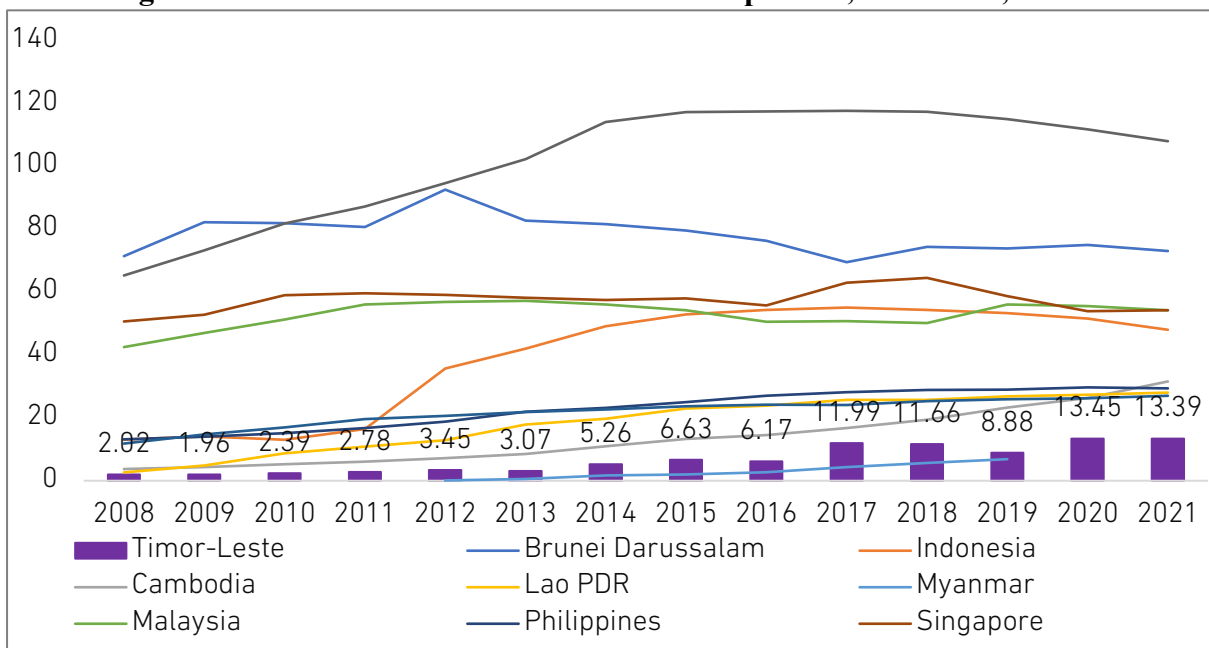
However, due to internet access issues, the number of automated teller machines (ATMs) in Timor-Leste remained relatively low in 2022, at about 16 per 100,000 adults (Figure 33), compared with the rest of the AMS, but better than Myanmar (Figure 34).

**Figure 33: Number of ATMs in Timor-Leste per 100,000 Adults, 2008–2022**



Source: IMF (2023a).

**Figure 34: ATMs in Timor-Leste and ASEAN per 100,000 Adults, 2008–2021**



ASEAN = Association of Southeast Asian Nations.

Source: IMF (2023a).

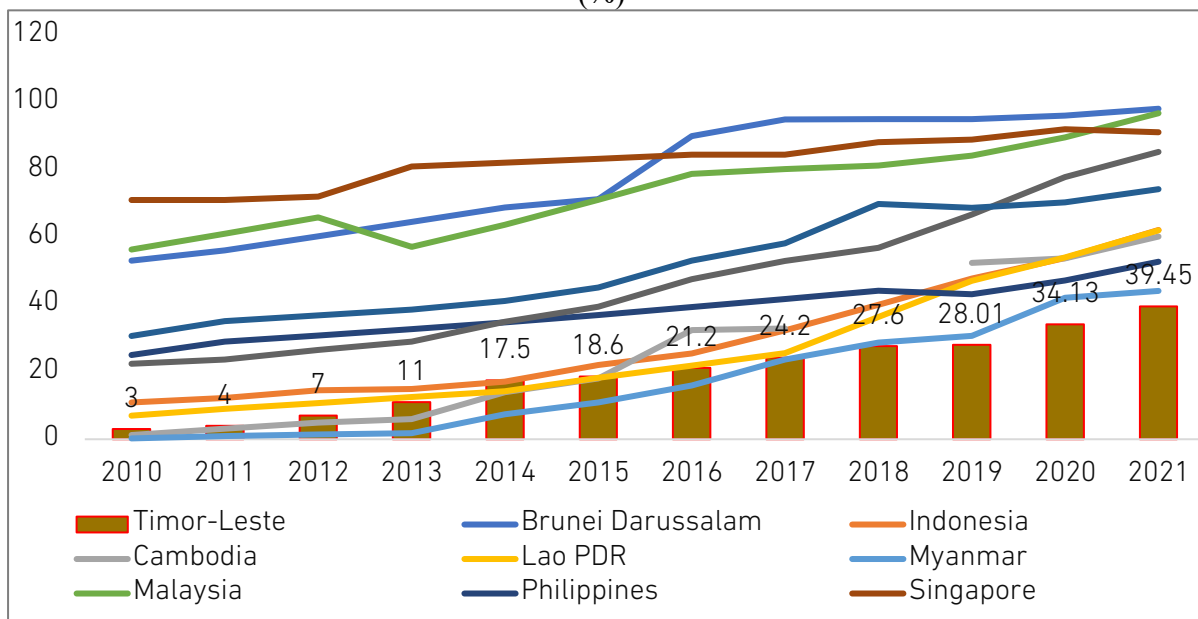
Efforts have continued to ensure greater use of digital financial services, particularly with mobile money reaching the poor in rural areas. For example, the number of registered mobile money agent outlets in 2021 was 345 per 1,000 square kilometres, an increase of 4,212% from 2018 (8 per 1,000 square kilometres). Similarly, the number of registered money accounts in 2021 stood at 219 per 1,000 adults, whereas in 2018 there was only 1 per 1,000 adults, an increase of 21,800% (IMF, 2023a).

### 3.10. Digital access

The digital divide continues to be a challenge in Timor-Leste. The long-awaited installation of the submarine fibre optic cable system linking Port Hedland, Australia and Dili is now under way. The system is designed to support a data transfer capacity of 27 terabits per second. Regulatory issues that hold back broadband development, digital identification, cybersecurity, and e-governance need to be resolved as a matter of priority prior to ASEAN accession. Equally important, information and communication technology (ICT) capacity in the workforce and ICT literacy in the country need strengthening.

In 2021, less than 40% of the population used the internet, which is lower than all AMS (Figure 35).

**Figure 35: Population Using the Internet in Timor-Leste and ASEAN, 2010–2021 (%)**

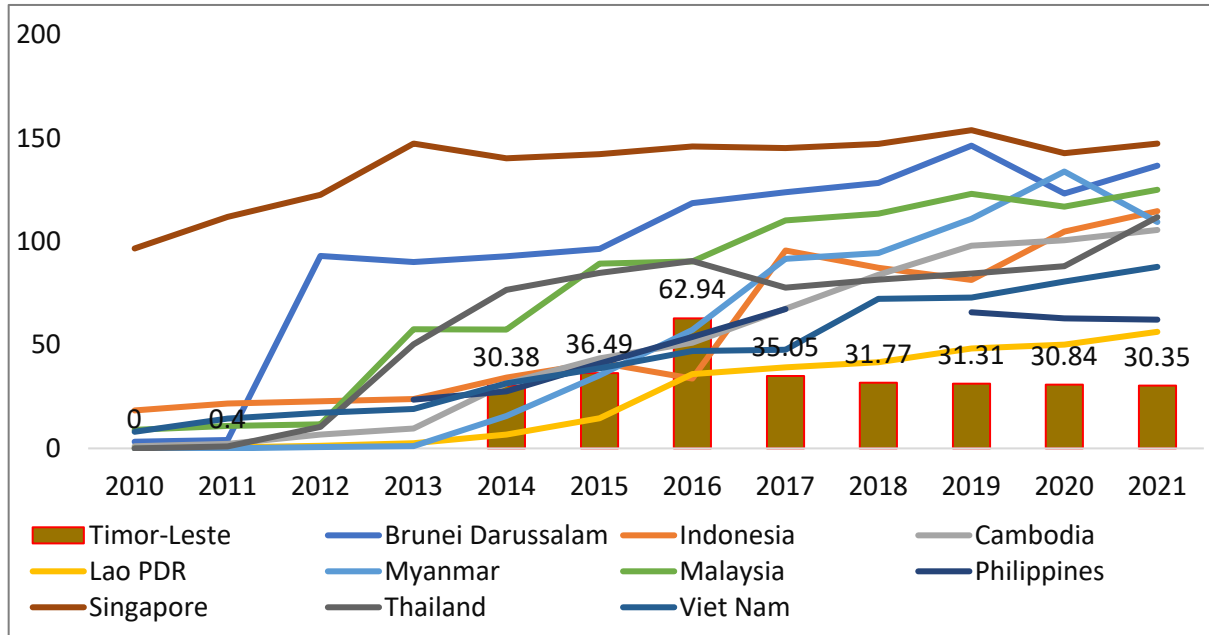


ASEAN = Association of Southeast Asian Nations.

Source: Independent Group of Scientists Appointed by the Secretary-General (2023).

Similarly, the number of mobile broadband subscribers remains very low in Timor-Leste, and it is the lower than all AMS (Figure 36).

**Figure 36: Mobile Broadband Subscribers (per 100 people) in Timor-Leste and ASEAN, 2010–2021**



ASEAN = Association of Southeast Asian Nations.

Source: Independent Group of Scientists Appointed by the Secretary-General (2023).

In terms of broadband speed, a recent survey conducted by Cable.co.uk showed that Timor-Leste’s mean download speed is 2.50 megabits per second, which ranks the country 217th in the world (Table 5). At that speed, it takes more than 4 hours to download a 5-gigabyte movie, according to the survey. Timor-Leste is only above Syria, Yemen, and Afghanistan, the three countries at the bottom of the list.

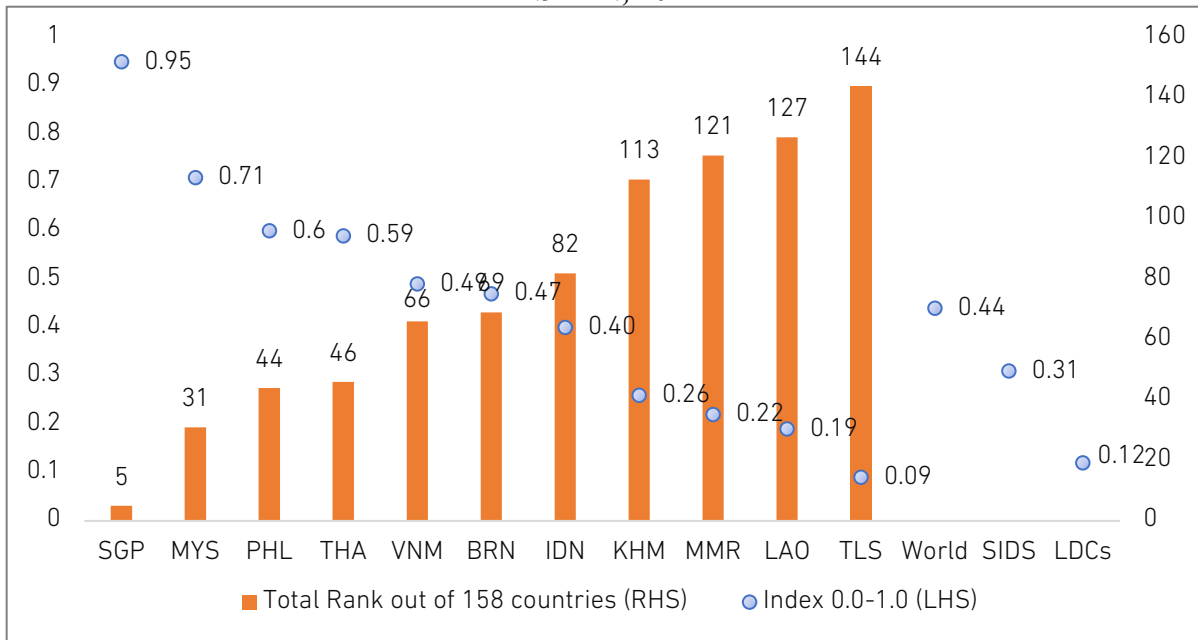
**Table 5: Worldwide Broadband Speed in Timor-Leste and ASEAN, 2023**

<b>Global position</b>	<b>Country</b>	<b>Mean download speed (Mbps)</b>	<b>Length of time to download a 5 GB movie (HH:MM:SS)</b>
23	Singapore	101.75	0:06:42
56	Thailand	62.75	0:10:52
86	Philippines	43.36	0:15:44
91	Malaysia	42.20	0:16:10
115	Brunei Darussalam	32.07	0:21:17
118	Viet Nam	29.25	0:23:20
140	Lao PDR	17.64	0:38:42
149	Cambodia	14.68	0:46:30
152	Indonesia	14.30	0:47:43
181	Myanmar	9.02	1:15:41
217	Timor-Leste	2.50	4:32:42

ASEAN = Association of Southeast Asian Nations, GB = gigabyte, Mbps = megabits per second.  
Source: Cable.co.uk (n.d.), Worldwide Broadband Speed League 2024.  
<https://www.cable.co.uk/broadband/speed/worldwide-speed-league/> (accessed 23 January 2024).

According to UNCTAD (2021), Timor-Leste is the least ready to use, adopt, or adapt to frontier technologies and is at risk of missing current technological opportunities, which rely on digitalisation and connectivity. Its score is 0.09, which is far below all small island developing states (0.31) and LDCs (0.12), including the three ASEAN LDCs (Figure 37).

**Figure 37: Readiness for Frontier Technologies Index and Rank, Timor-Leste and ASEAN, 2021**



ASEAN = Association of Southeast Asian Nations, LDC = least developed country, LHS = left-hand side, RHS = right-hand side, SIDS = small island developing state.

Source: Processed from UNCTAD (2021).

### 3.11. Environment and Climate Change

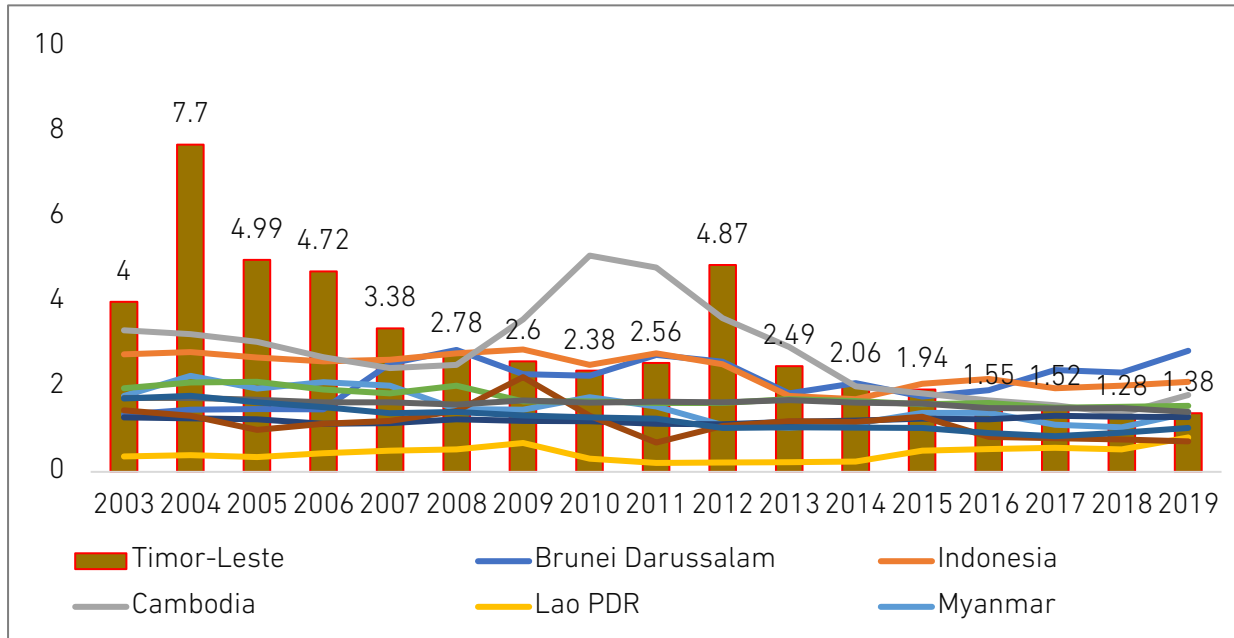
Like most of the ASEAN community, the Timorese are highly vulnerable and susceptible to climate-related hazards. According to the WorldRiskReport 2021 (Bündnis Entwicklung Hilft and IFHV, 2021), Timor-Leste has a WorldRiskIndex of 15.75 and ranks 16th out of 181 countries. Brunei Darussalam ranks sixth with an index of 22.77, followed by the Philippines in eighth place with an index of 21.39 and Cambodia 15th with an index of 15.80 (Bündnis Entwicklung Hilft and IFHV, 2021). All of them fall under the ‘very high risk’ category.

Timor-Leste is often affected by heavy precipitation, causing flash floods, soil erosion, and landslides, which lead to very high economic costs due to the destruction of private property, crops, and infrastructure. In addition, the negative impacts are greater on poor households, threatening food security. The state lacks coping capacities to respond to climate-related hazards, as seen with the severe floods caused by Cyclone Seroja.

Given Timor-Leste’s low industrial base, its contribution of carbon dioxide (CO<sub>2</sub>) emissions per capita was 0.4 tons in 2020 (UNEP, 2022), which results in a very high CO<sub>2</sub> emissions index of 0.994 compared with ASEAN, except Cambodia and Myanmar (Figure 38). However, the country has suffered from rising temperatures and abnormal precipitation patterns, causing damage to staple crops. During 2003–2019, Timor-Leste saw higher average CO<sub>2</sub> emissions from fuel combustion per total electricity output than all AMS, at 3.1 metric

tons of carbon dioxide/terawatt hours (MtCO<sub>2</sub>/TWh) (Independent Group of Scientists Appointed by the Secretary-General, 2023).

**Figure 38: CO<sub>2</sub> Emissions from Fuel Combustion per Total Electricity Output, Timor-Leste and ASEAN, 2003–2019 (MtCO<sub>2</sub>/TWh)**



ASEAN = Association of Southeast Asian Nations, CO<sub>2</sub> = carbon dioxide, MtCO<sub>2</sub> = metric ton of carbon dioxide, TWh = terawatt-hour.

Source: Independent Group of Scientists Appointed by the Secretary-General (2023).

Deforestation continues due to heavy reliance on firewood for cooking, combined with unsustainable agricultural slash-and-burn practices, which have accelerated land degradation and topsoil erosion. Timor-Leste has a vast maritime area that is rich in marine resources, but the state does not have the capacity to control illegal fishing and overexploitation of its resources.

In 2017, Timor-Leste ratified the Paris Agreement and submitted its first set of nationally determined contributions to the United Nations Framework Convention on Climate Change. Timor-Leste is committed to developing renewable energy, and the authorities have shown willingness to adopt more efficient energy use in electricity generation. The state does not have the capacity to collect data on the environment and climate change to support its decision-making process, but periodic data compilation is done by development partners.



### 3.12. Governance

Governance matters enormously for economic development. It can be a factor of growth and development (good governance) or stagnation and exploitation (bad governance). Governance is an outcome of development, and it can determine developmental outcomes. In Timor-Leste, the level of informality is relatively high, a characteristic of many small islands with small populations. While informality may be a way to hold communities together, it can contribute to lowering the quality of regulatory systems, fuelling corruption, and reducing government effectiveness.

The World Bank's Worldwide Governance Indicators reports on six broad dimensions of governance<sup>14</sup> for all countries in the world. Government effectiveness is one such dimension, which captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. In terms of government effectiveness, Timor-Leste saw a low score in 2018 of -0.80 on a scale of -2.5 to 2.5, placing the country in the 19th percentile rank<sup>15</sup> of the economies assessed (Figure 39).

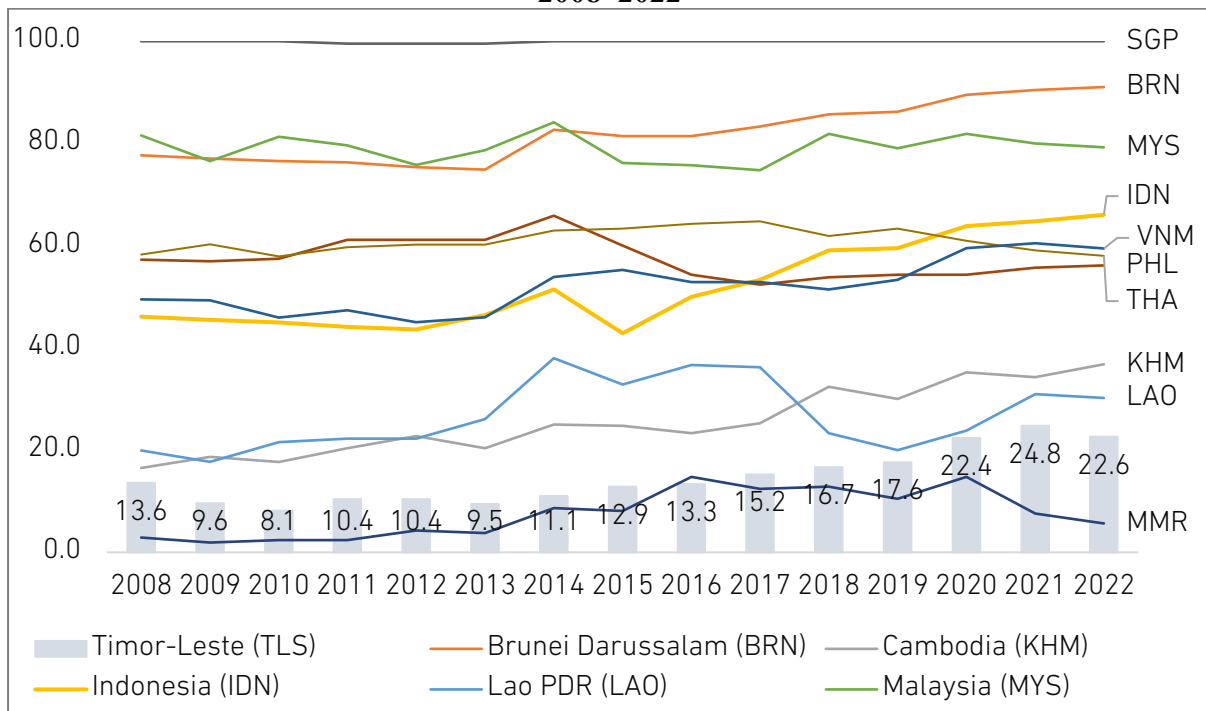
Compared with AMS, Timor-Leste's average score grew by 14.5% during 2008–2022, just above Myanmar and below the other two ASEAN LDCs (Lao PDR and Cambodia).

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<sup>14</sup> The six dimensions of governance are voice and accountability, political stability and the absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. The indicators compiled for each of these dimensions are used to characterise countries. For example, so-called 'failed states' are those that present the following characteristics: a central government that is ineffective and has little control over the whole territory; a government that does not provide public services; widespread corruption and criminality; refugees and involuntary movement of populations; and a sharp economic decline. In 2022, 10 countries were listed as failed states, including Myanmar. Data available at World Population Review (n.d.).

<sup>15</sup> Percentile rank indicates the country's rank amongst all countries covered by the aggregate indicator, with 0 corresponding to the lowest rank and 100 to the highest rank.

**Figure 39: Government Effectiveness – Percentile Rank, Timor-Leste and ASEAN, 2008–2022**



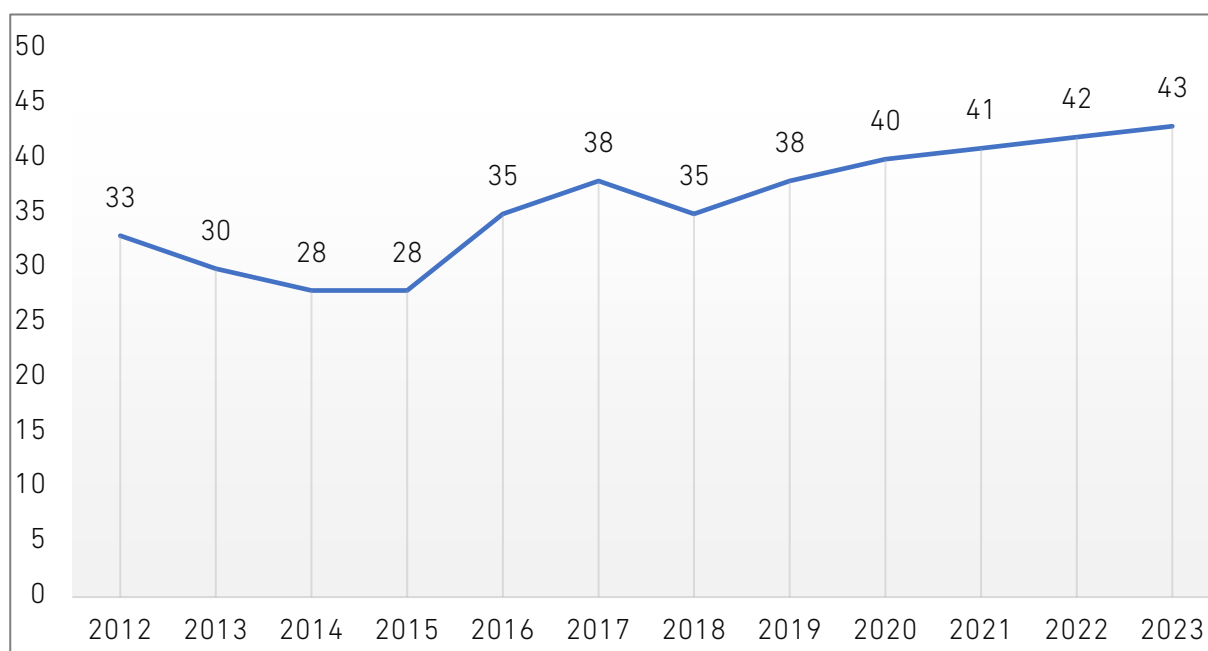
ASEAN = Association of Southeast Asian Nations.  
 Source: Author based on World Bank (n.d.-d).

Moreover, the World Bank’s 2020 Public Expenditure and Financial Accountability assessment (World Bank, 2020: 8) on all four indicators related to public procurement – monitoring, methods, public information on procurement processes, and complaints management – revealed that Timor-Leste’s procurement regulatory process is still weak, and the country scored a ‘D’.

Likewise, the Asian Development Bank noted its ‘modesty’ in terms of ‘core administration capacity in public policy and regulatory management’ and observed that there had been ‘little evidence of progress’ (ADB, 2022a: 6). Timor-Leste’s score for regulatory quality in the Worldwide Governance Indicators rose just 0.2, from –1.0 in 2011 to –0.8 in 2020 (World Bank (n.d.-d)).

In terms of corruption, Timor-Leste only began to show better results from 2016 onwards, reversing the downward trend during 2012–2015 (Figure 40).

**Figure 40: Evolution of Corruption Perceptions Index – Timor-Leste, 2012–2023**



Source: Transparency International (2023).

In 2023, Timor-Leste ranked 70th out of 180 countries on the Corruption Perceptions Index, with a score of 43 out of 100 (Table 6). Compared with AMS, Timor-Leste was the third least corrupt country, positioned after Singapore and Malaysia, but above all the others (Transparency International, 2023).

**Table 6: Corruption Perceptions Index – Timor-Leste and ASEAN, 2023**

Economy	2023 Rank out of 180 countries	2023 Score out of 100
Singapore	5	83
Malaysia	57	50
<b>Timor-Leste</b>	<b>70</b>	<b>43</b>
Viet Nam	83	41
Thailand	108	35
Indonesia	115	34
Philippines	115	34
Lao PDR	136	28
Cambodia	158	22
Myanmar	162	20
Brunei Darussalam	N/A	N/A

ASEAN = Association of Southeast Asian Nations, N/A = not available.

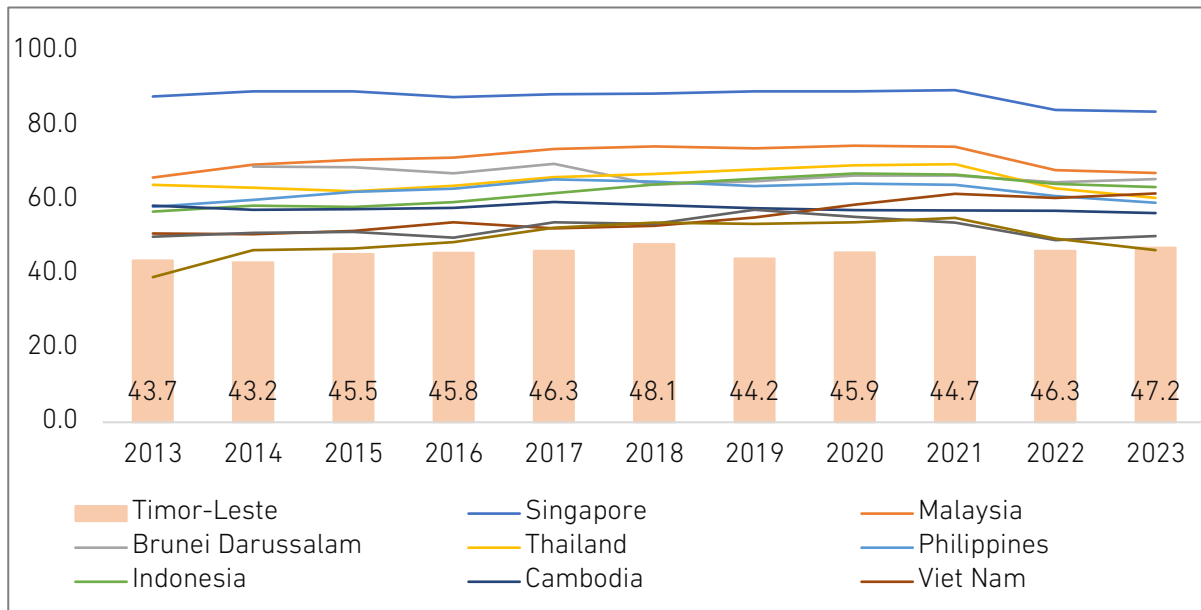
Source: Transparency International (2023).

In 2021, the Open Budget Survey put Timor-Leste in the category of 'limited information available', with a public participation score of 7 out of 100. However, in terms of budget transparency, Timor-Leste registered significant progress, with a score of 52 out of 100, which places the country 48th out of 120 countries assessed, a position far above Malaysia (47/120), Viet Nam (44/120), Cambodia (33/120), and Myanmar (30/120). Significant progress in budget transparency was made from 2019 to 2021, with the country's score rising from 40 in 2019 to 52 in 2021. Although Timor-Leste has made progress in terms of budget oversight, its National Parliament still provides limited oversight during the planning stage of the budget cycle and weak oversight during the implementation stage (International Budget Partnership, 2022).

On the Economic Freedom Index, Timor-Leste's score was 47.2 in 2023, making the country's economy the 159th freest in the world (Figure 41). This was a 0.9 point-increase compared with the previous year. With a score of 47.2, Timor-Leste is ranked 35th out of 39 countries in the Asia and Pacific region, presenting an overall score far below the world and regional averages. As a result, the Economic Freedom team of experts of the Heritage Foundation classified the country's economic freedom status as 'repressed' and 'severely constrained'. The reasons cited are:

The overall rule of law is weak in Timor-Leste. The country's property rights score is below the world average; its judicial effectiveness score is below the world average...Timor-Leste's overall regulatory environment is relatively well institutionalized but lacks efficiency...The investment environment is significantly limited by inadequate institutional capacity and poor infrastructure. The financial sector is very small and underdeveloped. The population has limited access to financial services (The Heritage Foundation, 2023).

**Figure 41: Economic Freedom in Timor-Leste and ASEAN, 2013–2023**



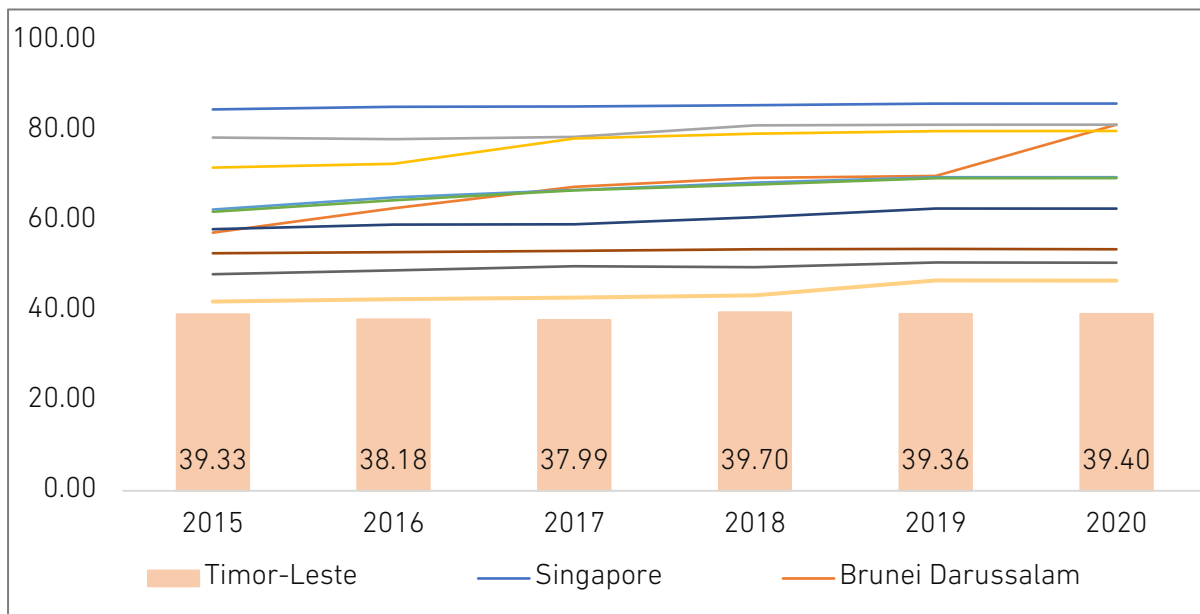
ASEAN = Association of Southeast Asian Nations.

Source: Freedom House (n.d.).

In terms of global competitiveness, in the World Economic Forum’s Global Competitiveness Report 2019, Timor-Leste scored 3.17 points out of 100. Timor-Leste’s Competitiveness Index has remained extremely low, averaging 3.22 points during 2007–2015. In 2007, Timor-Leste scored 3.11 points, and 5 years later it increased 3.35 points (World Economic Forum, 2019).

Given all the limitations in terms of institutional, human, and technological capacities, Timor-Leste has not been an ‘easy’ place to do business. In 2020, Timor-Leste had the lowest score of 39.40 in the World Bank’s standards of *Ease of Doing Business* index, placing the country in the 181st rank amongst 190 countries. Timor-Leste’s score is 1.7 times below the average for ASEAN (66.71). There was almost no change in the score between 2015 and 2020 (Figure 42).

**Figure 42: Ease of Doing Business in Timor-Leste and ASEAN, 2015–2020**



ASEAN= Association of Southeast Asian Nations.

Source: Compiled from World Bank (various years), *Doing Business*.  
<https://archive.doingbusiness.org/en/doingbusiness>

#### 4. Recommendations

This research project has broadly presented the situation of where Timor-Leste stands today and highlighted the possible policy areas that could help the country tread a more sustainable and inclusive growth trajectory while simultaneously overcoming the complex challenges that are also common to some individual AMS, at least when they integrated into the ASEAN bloc in the 1990s. Notwithstanding the progress made by Timor-Leste over the last 20 years – including moving from post-conflict status to an open economy that is less corrupt, democratic, and that enjoys a free press, relative stability, and sufficient liquidity – multiple issues still need to be addressed. The sluggish and volatile growth, which is mainly attributable to political uncertainty, must stop. Consensus (rather than contention) ought to be the foundation for building trust, internal cohesion, and willingness amongst Timorese citizens regarding the modernisation of the economy, to be able to compete in a larger, competitive, market-driven environment in the region and beyond. Convergence in per capita incomes within the ASEAN bloc will require Timor-Leste to double its average growth rate and sustain it for decades, perhaps without oil income. Hence, time is critical as the capital accumulated in the Petroleum Fund is diminishing rapidly, and the domestic private sector is far from becoming a driver of economic growth. Amid all the challenges of being the latest AMS, there must be strong political will and consistency to drive and expedite domestic reforms.

In preparation for Timor-Leste's accession to ASEAN, the following actions could be prioritised:

***#1. Develop a detailed plan to implement the ACC roadmap***

The ASEAN Coordinating Council (ACC) approved an objective criteria-based roadmap for Timor-Leste. The Roadmap for Timor-Leste's Full Membership of ASEAN is based on 'the outcomes of the Fact-Finding Missions to Timor-Leste conducted by the ASEAN-Political Security Community, ASEAN Economic Community and ASEAN Socio-Cultural Community.' (ASEAN, 2022). Timor-Leste's progress in achieving the milestones set out in this Roadmap will be regularly accounted for through reviews conducted semi-annually by the ASEAN Secretariat' (ACC/ACC-WGTL/2023/1/RDM – Roadmap for Timor-Leste's Full Membership in ASEAN, version 0.1). From now on, Timor-Leste must focus on the implementation of the roadmap as proof of its determination to transition from observer to a full member of ASEAN. The roadmap requires a detailed plan for its implementation. The Ministry of Foreign Affairs and Cooperation will have to work closely with the ASEAN Secretariat to quickly develop the detailed plan, including the specification of clear targets and indicators, with a time-bound implementation plan. The plan should include a list of projects, activities, and actions, as well as the institutions responsible for each deliverable. A monitoring mechanism should be developed and put in place, specifying the type of information/metrics that will be regularly monitored, including the institutions that will be responsible for ensuring that the progress of projects, activities, and actions is achieved. The sources of funding must also be clearly identified for each project, activity, and action. The implementation plan must be approved at the Council of Ministers and accompanied by a decree-law, which will require the endorsement by the President of the Republic. The roadmap already covers the main areas under the ASEAN Community pillars where Timor-Leste will have to concentrate its resources to achieve the milestones of the roadmap.

Regarding the implementation of ASEAN treaties, conventions, agreements, and instruments under the three ASEAN Community pillars, the involvement of the Parliament in the ratification process will be necessary. To expedite the process, Timor-Leste will need analytical inputs from experts in specific areas for policy, legal, and regulatory reform. To that end, it is suggested that individual AMS provide in-kind assistance to work with Timorese counterparts. It is important that individual AMS begin with a needs assessment, together with their Timorese counterparts, to identify the areas that require assistance so that interventions

are responsive, needs-based, and well targeted. Policy papers can be entrusted to local academic institutions to engage academia from the beginning of the integration process.

The recommendations in the roadmap must be implemented in their entirety. For the implementation of part of the projects, activities and actions that are funded by the Timorese government must be reflected in the state budget for fiscal year (FY) 2025, as proof that the country is determined to fulfil its ASEAN commitments and obligations. As financial resources are scarce, the government will have to mobilise funding from donors to assist in the implementation of the roadmap. As much as possible, the private sector must contribute to the implementation of the roadmap, particularly in infrastructure, hospitality, restaurants, and other services.

## ***#2 ASEAN Economic Community (AEC)***

Timor-Leste is a small economy with a limited export base. Therefore, it would be wise to begin with a comprehensive and holistic analysis of all sectors to identify which will benefit most from economic integration with ASEAN. The study will have to produce clear and concrete measures as to how to strengthen the national export competitiveness.

Intensive training on the implementation of the National Single Window<sup>16</sup> is needed to facilitate Timor-Leste's participation in the ASEAN Single Window implementation. Exchange programmes will be required to strengthen the Customs Authority and relevant agencies regarding trade in goods implementation, rules of origin and certification procedures, risk assessment and enforcement of agreements related to customs, managing non-tariff measures, and other integration measures, including familiarising the domestic private sector with the ASEAN Trade in Goods Agreement.

Timor-Leste will have to establish national standards and harmonise them with the priority sectors of the AEC.<sup>17</sup>

As with services, it would be advisable to conduct a thorough analysis of the impact of the free flow of services in the regional context and to provide technical assistance (TA) on policy measures for the development of tourism, including air transport services, the liberalisation of tourism services, and the use of tourism professionals.

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<sup>16</sup> The National Single Window was established in 2017 through the UNCTAD Automated System for Customs Data (ASYCUDA) and has been utilised by the Timor-Leste Customs Authority since 2018. It is necessary to continue to train custom officials on the implementation of the ASEAN Single Window.

<sup>17</sup> The Timor-Leste Quality Assurance Institute is a new body that was established in 2023, which will have a lot to learn from the ASEAN Consultative Committee for Standards & Quality (ACCSQ) in terms of ASEAN standards.



Capacity should be built in line ministries and the domestic private sector in charge of the provision of services (e.g. transport, accommodation, restaurants, entertainment, leisure, legal). The institutions that require service commitments under the ASEAN Trade in Services Agreement include the following: (i) the Ministry of Health; (ii) the Ministry of Agriculture, Livestock, Fisheries and Forestry; (iii) the Ministry of Commerce and Industry; (iv) the Ministry of Transport and Telecommunications; (v) the Customs Authority; (vi) the Taxation Authority; (vii) TradeInvest Timor-Leste on investment; (viii) SERVE,I.P. on business registration; and (ix) legal service providers.

The ease of doing business indicators show that Timor-Leste will have to overcome many barriers to investment. Therefore, it is important to:

- (i) look at studies conducted by international financial institutions regarding possible strategies to attract foreign and domestic investment and build absorptive capacities to maximise private investment; and
- (ii) start familiarising the domestic private sector with the ASEAN Comprehensive Investment Agreement and other integration measures.

In the area of free flow of capital, Timor-Leste has not yet established its own capital market to facilitate capital to local (and international) enterprises. It is necessary to:

- (i) build capacities in capital markets;
- (ii) enhance the competitiveness of the existing commercial banks by strengthening the capacities of their human resources and modernising banking technology and risk management;
- (iii) expedite negotiations on the legal framework and institutional set-up for the establishment of the industrial park at the border with Indonesia as a first step to persuade multinational corporations from AMS to locate their businesses on the site (serving as a training ground for more complex and larger business initiatives in the future) – the small size of the domestic market, combined with the absence of indigenous industrial entrepreneurs, make it imperative to integrate the country into the world economy by attracting export-oriented foreign investment; and
- (iv) personnel at the Central Bank (BCTL), the Ministry of Finance, and relevant institutions require on-the-job training in capital market developments, liberalisation of financial services, and capital accounts.

The agricultural sector will have to be developed in the coming decades as an alternative source of income. It is therefore necessary to:

- (i) provide TA on the maximum residue levels of commonly used pesticides for crops that will be widely traded to ensure compliance with international standards/guidelines;
- (ii) conduct a thorough review of existing studies on how to increase food security;
- (iii) build capacities for agricultural, livestock, forestry, and fishing commodities for export to the regional market;
- (iv) conduct exchange programmes to improve knowledge and skills in good agriculture and aquaculture practices, and formulate a policy in those areas; and
- (v) provide TA for the harmonisation of sanitary and phytosanitary measures for agricultural, food, and forestry products, particularly products that have trade potential.

One of the areas related to the business environment where Timor-Leste is not performing well and requires assistance is rule of law, in terms of the enforcement of contracts, dispute settlement, and government policy reform, which, combined, make Timor-Leste less competitive. For that, it is necessary to:

- (i) provide TA in policy formulation and in the development and improvement of consumer protection guidelines and the legal framework;
- (ii) deliver assistance in drafting protection-related registration, particularly regarding unfair and deceptive practices such as false and deceptive advertising, abusive sales tactics, consumer fraud, and other unfair business practices that may contribute to weakening of consumer protection measures;
- (iii) provide TA on tax structure enhancement and harmonise it with the tax systems of other AMS;
- (iv) continue the fiscal reform to improve revenue collection and reduce public spending on projects that provide no return, including reducing superfluous spending to free up fiscal space for enhancing human capital, sustaining domestic reforms, and fulfilling all ASEAN commitments and obligations;
- (v) provide support for the development of an e-commerce friendly environment that covers areas of e-commerce law, digital signatures, and information security;
- (vi) conduct a comprehensive and holistic analysis of the likely rural areas benefiting from regional economic integration;
- (vii) design programmes to enhance the competitiveness of domestic small and medium-sized enterprises in the region;
- (viii) set up a Timor-Leste business forum to allow routine dialogue between the public and private sectors to address constraints to investment and discuss how to remove them;

- (ix) forge business-to-business partnerships between Timor-Leste and AMS business groups to share insights on how to do business and work on concrete projects to help strengthen the domestic private sector;
- (x) conduct regular dialogue with potential investors and trading partners to identify and develop products for export;
- (xi) engage domestic research institutions, entrepreneurs, and the private sector to develop new forms of doing business.

### ***#3 ASEAN Socio-Cultural Community (ASCC)***

Since human capital development has long been neglected, resulting in low productivity of the labour force across all sectors, focus should be on:

- (i) developing skills and competencies that are essential to unlocking potential and accelerating the process of economic diversification in the long term;
- (ii) seeking opportunities for regional cooperation on educational exchanges (teachers/lecturers and students) and learn from ASEAN's success stories and best practices; and
- (iii) establishing exchange training programmes for specific skills that are needed by Timor-Leste, through partnerships with higher institutes in the region.

As the informal sector continues to dominate the labour market, it is necessary to design programmes or projects to assist the informal sector, including formulating policy and training programmes.

Regarding the development of ICT, it is necessary to:

- (i) train the population to become skilled in ICT, as well as providing training and ICT literacy for women and people with disability on how to access ICT; and
- (ii) build partnerships between domestic academic higher education institutions and ASEAN institutions for collaborative research and development in enabling technologies, particularly in low-productivity sectors including food production, storage and distribution, herbal medicine, and the prevention and mitigation of epidemics.

Strengthening civil servants' capacities is an important area of the IAI for Timor-Leste. Therefore, it is necessary to:

- (i) establish new regulatory and institutional frameworks, and adjust the existing ones to align them with ASEAN treaties, conventions, agreements, and instruments under the three ASEAN Community pillars;

- (ii) translate the new and adjusted legal and regulatory framework from Portuguese to English and vice versa;
- (iii) provide intensive English courses for all line ministries and agencies to be able to participate in the numerous ASEAN meetings;
- (iv) seek internship programmes, on-the-job training, exchanges of government officials at the technical level, and other learning-by-doing forms, for smooth integration with ASEAN and the capacity to respond to the requirements of ASEAN commitments; and
- (v) train government officials in negotiation, presentation, and public speaking skills – once trained, the officials should be mandated to remain in their posts for at least 5 years.

Timor-Leste is conducting a survey of living standards to update the 2014 edition conducted a decade ago. Given that multidimensional poverty is prevalent, it is necessary to identify programmes and projects that have a greater impact on poverty reduction, particularly amongst the most vulnerable segments of society.

The country is prone to climate change, with serious consequences to livelihoods. It is therefore necessary to enhance domestic capabilities in disaster response, and search and rescue, including strengthening the capacities of agencies responsible for disaster management and emergency response.

Migration will likely increase after Timor-Leste becomes a full member of ASEAN. It is necessary to provide TA and enhance domestic capacities, not only to produce more capable Timorese workers who chose to find jobs overseas, but also to manage incoming workers from the region and beyond through clear and easily accessible procedures and documentation.

As an island state, Timor-Leste is prone to the intrusion of seawater. It is therefore necessary to develop capacities within the country for the implementation of the ASEAN Marine Water Quality Management Guidelines and Monitoring Manual.

Programmes need to be geared towards promoting natural conservation areas and sustainable development of biodiversity, including those listed in the ASEAN Heritage Parks Programme and World Heritage Sites.

The integration of Timor-Leste into the ASEAN bloc requires the enhancement of knowledge and understanding of a variety of beliefs, cultures, deeds, and attitudes. Besides the cultural exchange programmes, which have a limited audience and impact, it is advisable to develop reading materials about the peoples of Asia, in particular ASEAN, for wider distribution at schools, non-governmental organisations, and cultural centres. The ASEAN

embassies should promote more such cultural activities to raise awareness about ASEAN and foment a sense of being part of the community.

#### ***#4 ASEAN Political-Security Community (APSC)***

Although Timor-Leste has opted for democracy, the rule of law, institutions, governance effectiveness, public administration, and social development still present significant deficiencies. It is therefore necessary for programmes and projects to be designed to complement existing country efforts and to ensure the implementation of the various conventions that Timor-Leste has ratified, including the Convention on the Elimination of All Forms of Discrimination Against Women.

Timor-Leste has a porous border, which makes it difficult to prevent, control, and combat transnational crimes and terrorism. Timor-Leste will have to participate in various ASEAN programmes and build strong partnerships with its neighbours to better prevent such crimes.

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